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ABSTRACT

The major objective of this booklet and guide is to help high school students understand the U.S. tax system. The student booklet consists of eight modules. The first module discusses taxpayer responsibilities and rights. Methods of paying taxes are discussed, privacy rights are described, and the functions of the Collection and Criminal Investigations of the Internal Revenue Service are outlined. The second module teaches students how to prepare an income tax return. Specific instructions for completing forms (1984 tax year) 1040EZ, 1040A, and 1040 are provided. The history of taxation is the focus of the third module. The fourth module discusses the economics of taxation. The politics of taxation (i.e., the executive branch's role in tax legislation, how Congress passes tax legislation, and how Congressional members are influenced by politics), is treated in the fifth module. The sixth module examines state taxes. Facts and fallacies about the Internal Revenue Service are described in module 7. The last module contains a glossary of tax terms. The teacher's guide presents specific instructions for developing each module. Learning activities and discussion questions are suggested, and answers to problems and quizzes are provided. (RM)

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# UNDERSTANDING TAXES 1985

[and]

# TEACHER'S GUIDE TO UNDERSTANDING TAXES 1985

Internal Revenue Service
(Department of Treasury)
Washington, D.C.

1985

SO 016 457

# UNDERSTANDING TAXES 1★9★8★5

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The illustrations in this student guide were sketched on-site by Washington, D.C. artist, Michael David Brown. They show high-school students at work in a variety of summer jobs. These jobs and many others are all available through programs developed by Federal, State and local government agencies as well as private and public organizations. Check with your school's counseling office, local Chamber of Commerce, and City, State and Federal government personnel offices to obtain more information about the employment opportunities available. A key to the illustrated jobs and acknowledgements can be found on page 38.

# MODULE 1

## Taxpayer Responsibilities and Rights

### Objectives

At the end of this module, you will be able to:

1. Describe your responsibilities as a taxpayer
2. Describe the basic steps in fulfilling your responsibilities
3. Describe your rights as a taxpayer.

### Introduction

The future of this country will soon be in your hands. You will be voting in elections. You will be earning more money. Your buying power will increase. As a result, you will become an influential part of our economy. In turn, you will have more responsibilities.

The Internal Revenue Service relies on all taxpayers to know their tax responsibilities and to meet them. This is our system of voluntary compliance.

This system of voluntary compliance places the responsibility for filing a tax return upon you. Millions of taxpayers each year prepare their own tax returns, or have others prepare them, and pay their tax without prompting from a government agent.

If you meet the minimum requirements for filing a return, you must file it by the date it is due. You determine the amount of your tax liability. If you have not paid enough tax during the year, you must pay any tax due. If too much tax has been paid in already, you can receive a refund.

Paying your fair share of taxes is the law. The Internal Revenue Service is empowered to uphold the law by examining returns and enforcing collection. If your return is selected for examination, it does not necessarily mean that you will have to pay more taxes. In some cases, an examination will reveal that you have paid too much tax and a refund, plus interest calculated from the due date of the return, will be issued to you.

In this module, you will learn the basic steps to take in fulfilling your responsibilities as a taxpayer. You will learn the purpose of the social security number and how to fill out and use the necessary tax forms for employment.

The following discussion describes how your tax must be paid through withholding, through estimated tax payments, or through a payment you make when you file your return. It describes your privacy rights and your rights to appeal the results of an examination if you do not agree with the Service's decision about your tax liability. At the end of this module, the functions of Collection and Criminal Investigations of the Internal Revenue Service are outlined.

## Your Responsibilities

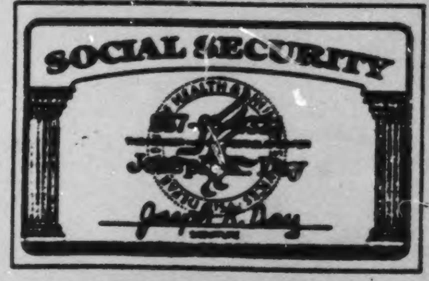
Federal income tax is collected on a pay-as-you-go basis. This means that as you receive money that is subject to income tax, you must pay that tax. Most employers are required to withhold tax from your paycheck and to deposit it with the government. If you are self-employed, you must pay your taxes in installments during the year. When you file your income tax return, you may still have more tax to pay or you may be entitled to a refund if too much was paid during the year.

Employers are also required to withhold money to pay your social security tax. If you work for more than one employer, too much of this tax might be withheld during the year. If so, you can get a credit when you file your tax return.

### Social Security Number

The federal revenue used to pay for retirement pensions and survivor benefits is placed in a special trust fund. The Social Security Administration manages this fund.

More than nine out of ten jobs are covered by social security. This means that in most jobs where you work, you will pay social security tax. Your social security benefits will be based on your total earnings on which this tax has been paid.



The social security tax is officially called the Federal Insurance Contributions Act tax, or FICA tax. FICA tax funds are placed in funds completely separate from income taxes.

In order for you to receive credit for the taxes that have been placed in this fund in your name, you must be given a social security number by the Social Security Administration. You may do this by filing a Form SS–5, *Application for a Social Security Number Card*, with the Social Security Administration. Form SS–5 is available at Social Security offices.

A social security number is a 9–digit account number that is issued to you by the Social Security Administration. It is yours for life. Among all the millions of social security numbers issued, no other number is the same as yours.

Since your social security number is unique and is used as your identification number by the Internal Revenue Service, you must be careful to report it accurately to your employers and to record it accurately on every tax return, statement or other document you file with the Internal Revenue Service. Anyone who is required to report income paid to you will need your social security number. In addition to your employer this may mean, for example, banks, savings and loan associations, stockbrokers, corporations, or anyone else who might pay you interest or dividends. You could be assessed a penalty if you do not give your correct social security number to anyone who is required to report income paid to you.

### Form W–4

When you start working, one of the first things your employer will ask you to do will be to fill out Form W–4, *Employee's Withholding Allowance Certificate*. A worksheet is provided on the back of Form W–4 to help you figure your withholding allowances.

Each allowance that you claim lowers the amount of tax that must be withheld from your pay. Allowances may be claimed for personal and dependency exemptions, certain deductions and credits, and a special withholding allowance for some people who work for only one employer or receive most of their income from one employer. We will discuss only the two allowances that affect most new taxpayers—the exemption allowance and the special withholding allowance.

You are entitled to an allowance for your own personal exemption. Some taxpayers are also allowed additional exemptions for age, blindness, dependents, or a spouse.

Remember, when you claim allowances for exemptions on Form W–4, that you claim only those exemptions that you are allowed to claim on your income tax return.

If you work for two employers at the same time, and claim all of your withholding allowances on the Form W–4 filed with one employer, you must claim zero allowances on the Form W–4 filed with the second employer.

On your Form W–4 you cannot claim an allowance that is being claimed on another person's Form W–4. Thus, if a husband and wife are both working, they both cannot claim allowances for the same exemptions, deductions, or credits.

In one instance a person can be claimed by two individuals on their separate Forms W–4, and this instance is particularly important to you as a student. If you are a dependent of another taxpayer, such as your father, your father may claim an allowance for your exemption as his dependent, and you may claim an allowance for your own personal exemption. Your father is allowed to claim your exemption on his income tax return and you are also allowed to claim your exemption on your own return.

The special withholding allowance is only for withholding purposes on Form W–4 and does not relate to any exemption, deduction, or tax credit on your return. You may claim only one special withholding allowance and only if one of the following applies to you:

1. You are single and have only one job.
2. You are single and have more than one job, but 90% or more of your combined total wages is from one job and 10% or less is from other jobs.
3. You are married and have only one job, and your spouse is not working.
4. You are married, and you or your spouse (or both) have more than one job; but 90% or more of your combined total wages is from one job and 10% or less is from other jobs.

As a high school student, you are most likely to be in the first situation. Be sure to claim this special allowance on the Form W–4 or your employer may withhold more tax than is necessary.

If you do not file a Form W–4 with your employer, your employer must withhold taxes from your wages as if you were single and had claimed no allowances.

### When to File a New Form W–4

You already know that you must file a Form W–4 every time you start to work for a new employer. What many people forget is that they must file a new Form W–4 with their same employer when conditions change that would affect their income tax liability. For example, if the number of allowances you have claimed decreases, or if you think that you will owe more tax, you must file a new Form W–4 within 10 days after conditions change. It is your responsibility to go to your employer and request a new Form W–4 to fill out.

### Overwithholding

If you do not claim enough allowances on your Form W–4, you may have too much tax withheld from your pay. You will receive a large refund from the Internal Revenue Service when you file your income tax return. This may seem like a great way to save money, but ac-

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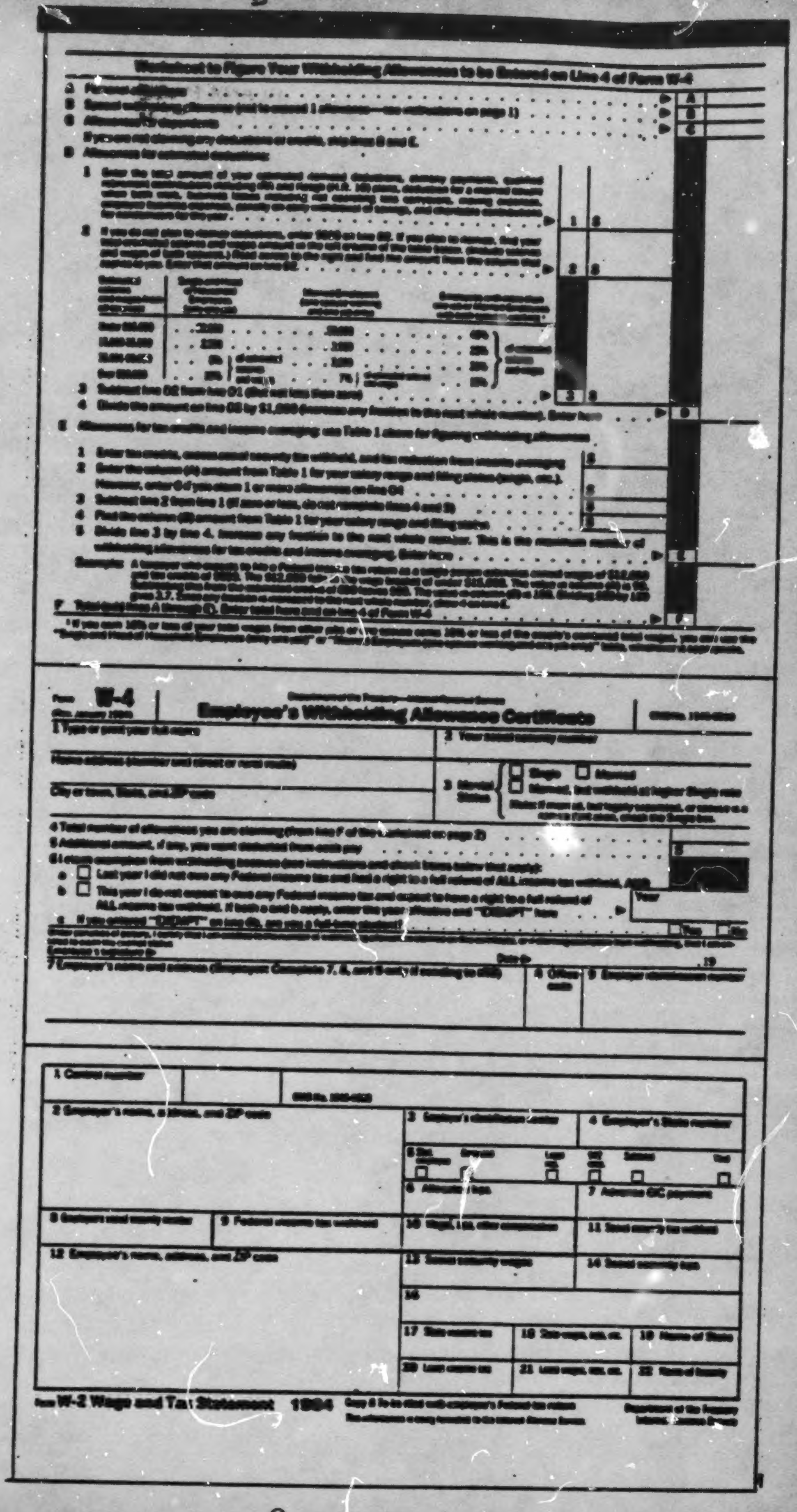

## Worksheet to Figure Your Withholding Allowances to be Entered on Line 4 of Form W-4

A Personal allowances . . . . . . ▶ A

B Special withholding allowance (not to exceed 1 allowance—see instructions on page 1) . . . . ▶ B

C Allowance(s) for dependents . . . . . . ▶ C

If you are not claiming any deductions or credits, skip lines D and E.

D Allowances for estimated deductions:

1 [illegible] . . . ▶ 1 $

2 [illegible] . . . ▶ 2 $

[illegible]

3 [illegible] . . . ▶ 3 $

4 [illegible] . . . ▶ D

E [illegible]

1 [illegible]

2 [illegible]

3 [illegible]

4 [illegible]

5 [illegible] . . . ▶ E

Example: [illegible]

F Total lines A through E. Enter total here and on line 4 of Form W-4 . . . . ▶ F

[1] [illegible]

---

Form **W-4**

## Employee's Withholding Allowance Certificate

1 Type or print your full name

2 Your social security number

Home address (number and street or rural route)

City or town, State, and ZIP code

3 Marital Status ☐ Single ☐ Married ☐ Married, but withhold at higher Single rate

Note: [illegible]

4 Total number of allowances you are claiming (from line F of the worksheet on page 2)

5 Additional amount, if any, you want deducted from each pay . . . . $

6 I claim exemption from withholding because (see instructions and check boxes below that apply):

a ☐ Last year I did not owe any Federal income tax and had a right to a full refund of ALL income tax withheld, AND

b ☐ This year I do not expect to owe any Federal income tax and expect to have a right to a full refund of ALL income tax withheld. If both a and b apply, enter the year effective and "EXEMPT" here . . . ▶ Year

c If you entered "EXEMPT" on line 6b, are you a full-time student? . . . . ☐ Yes ☐ No

[illegible]

Employee's signature ▶ Date ▶ , 19

7 Employer's name and address (Employer: Complete 7, 8, and 9 only if sending to IRS)

8 Office code

9 Employer identification number

---

1 Control number

2 Employer's name, address, and ZIP code

3 Employer's identification number

4 Employer's State number

5 ☐ ☐ ☐ ☐ ☐ ☐

6 Allocated tips

7 Advance EIC payment

8 Employee's social security number

9 Federal income tax withheld

10 Wages, tips, other compensation

11 Social security tax withheld

12 Employee's name, address, and ZIP code

13 Social security wages

14 Social security tips

16

17 State income tax

18 State wages, tips, etc.

19 Name of State

20 Local income tax

21 Local wages, tips, etc.

22 Name of locality

Form **W-2 Wage and Tax Statement** 1984

Department of the Treasury
Internal Revenue Service

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tually you are losing money. The Service generally does not pay any interest on refunds. Banks, credit unions, and other investment plans, such as savings bonds, do pay interest. It is wiser to save money where it will earn interest than to let the government hold it for nothing. Always claim the allowances to which you are entitled.

### Underwithholding

The tax withholding tables that your employer uses are set for the majority of employees. For some people, not enough tax will be withheld to cover the tax liability. This is especially true when both a husband and wife work and they earn about the same amount of money or plan to file separate returns. Either the couple can lower the number of allowances they claim on Form W–4, or they can each check the box marked "Married, but withhold at higher Single rate."

### Exemption From Withholding

Your employer will not withhold any income tax from your pay if you claim exemption from withholding. You can claim this exemption if you did not have any income tax liability last year and you do not expect to have any income tax liability this year. This is especially helpful to students who usually work at part-time or vacation jobs and do not earn enough money to have to pay any income tax. If you qualify for the exemption, check boxes 6a and b of Form W–4, write the year effective and "EXEMPT" on line 6b and answer Yes or No to the question on line 6c.

If you are eligible and claim this exemption, you will not have to file an income tax return just to claim a refund. The exemption from income tax withholding does not affect your social security tax withholding.

If you want to claim exemption from income tax withholding next year, you must file a new Form W–4 with your employer by February 15 of next year. If you do not have federal income tax withheld this year, but expect to have a tax liability next year, you are required to give your employer a new Form W–4 by December 1 of this year.

A fine of $500 may be charged if you file, with no reasonable basis, a Form W–4 that decreases the tax withheld. In addition, criminal penalties apply for willfully supplying false or fraudulent information or failing to supply information requiring an increase in withholding.

### Form W–2

Form W–2, *Wage and Tax Statement*, is an Internal Revenue Service form prepared by your employer. If you work until the end of the year, your employer must provide Form W–2 to you by January 31 of the following year. If you work for only part of the year, you may receive this statement from your employer soon after you leave your job, but no later than January 31 of the following year. However, if you ask for the form earlier, your employer must give it to you within 30 days of your request or within 30 days after your last wage payment, whichever is later. Every employer you work for during the year is required to have information for your Form W–2 on file at his or her place of business. Most employers mail Form W–2 to their employees. If you do not receive your Form W–2 by January 31, ask your employer for it.

This form is important because it provides a record of the wages you received. If you are required to file an income tax return, you must attach Copy B of Form W–2 to your return. If you had more than one employer, attach Copy B of all of your Forms W–2 to your return.

Keep Copy C of your Forms W–2 for your records. In most states you will get additional copies to attach to your state and local income tax returns.

The information on your Form W–2 will include your employer's name, address, and identification number; your name, address, and social security number; the federal income tax withheld from your pay; the wages, tips, and other pay that you received; the FICA (social security) tax deducted from your pay; and your total FICA wages. This form may also include other information, such as your state and local tax withheld.

If you receive a Form W–2 on which any of the entries is incorrect, you should ask your employer to give you a corrected statement on Form W–2c, *Statement of Corrected Income and Tax Amounts*. You should then file Copy B of the Form W–2c with your completed return, along with Copy B of any Forms W–2 you may have received from other employers.

If you do not get your Form W–2 by February 15 you may call the Internal Revenue Service Tax Information number in the phone book, listed under *United States Government, Internal Revenue Service*. The Internal Revenue Service will write to your employer to encourage him or her to provide you with a Form W–2. If you still do not receive your Form W–2, you may file Form 4852, *Employee's Substitute Wage and Tax Statement*. You will need to fill out Form 4852 completely. You should then attach Form 4852, along with Copy B of any other Forms W–2, to your tax return.

### Estimated Tax Payments

If you receive income that is not subject to withholding, you may have to pay estimated taxes. For 1986, you should pay estimated taxes if more than $500 of your income is not subject to withholding and if your estimated tax is $500 or more. The form you use to estimate your tax is Form 1040–ES, *Estimated Tax for Individuals.*

### Filing Your Income Tax Return

To file your income tax return, you must use Form 1040EZ, Form 1040A or Form 1040. Form 1040EZ is the simplest form to file and should be used whenever possible. Form 1040A is a simpler form than Form 1040. However, there are certain deductions and credits that you can claim only by using Form 1040.

During the calendar year, your employer will have withheld tax from your paycheck, or you may have paid estimated taxes. These payments are only estimates of what you expect to owe for income and social security taxes. On your income tax return you will figure what your actual tax liability is. The result may be that you owe more taxes or are entitled to a refund.

If you are filing your return for the first time, you will have to get the forms you need. Form 1040EZ, Form 1040A, or Form 1040 (and related instructions) are available at many Internal Revenue Service offices. Many libraries have a book of forms which you can use to make photocopies. After you have filed for the first time, the Internal Revenue Service will mail you a forms package, including instructions. Which package they send depends on which form you filed last year. If you have moved since last year, your forms package will not be forwarded to you; therefore, you will need to get the forms you need.

The Internal Revenue Service offers many free publications to help taxpayers. Separate publications give detailed information about such topics as allowable deductions, moving expenses, child and dependent care expenses, and recordkeeping. One comprehensive publication entitled *Your Federal Income Tax* (Publication 17) gives information about topics that relate to most taxpayers.

Some taxpayers hire a professional preparer to assist in filing their income tax returns. The preparer may be a lawyer, accountant, or anyone else who is in the business of helping taxpayers file their returns. Even if you hire a tax preparer, you are responsible for supplying accurate and complete information. If your return contains errors, or if it is examined and more tax is owed, the responsibility is yours for paying the additional tax (plus any interest and penalties) to the Internal Revenue Service.

Before hiring a tax preparer, you should ask whether he or she will be available for assistance if your return is selected for examination and whether there will be any additional fee for this assistance. You should also ask if the preparer will agree to reimburse you for interest and penalties due to mathematical errors. Paid preparers must always sign and date your income tax return and give you a copy of the return for your records in addition to the copy to be filed with the Internal Revenue Service.

Each year about one million taxpayers obtain free assistance through the Volunteer Income Tax Assistance (VITA) program and the Tax Counseling for the Elderly (TCE) program. Volunteers include students from high schools, colleges and universities; members of social service organizations; and retirees, as well as Internal Revenue Service employees and family members. All volunteers receive training from the Internal Revenue Service and commit at least 8 hours of their time to provide help. There is no charge for their assistance. The VITA and TCE programs offer this service through community centers, churches, schools, and libraries. To find out whether there are VITA volunteers in your community, you can call your Internal Revenue Service office.

#### When and Where to File

You must figure your taxable income for a fixed period of time. This is called an accounting period. Most taxpayers use the calendar year accounting period. This is the 12 months from January 1 through December 31. The due date for filing a calendar year return is April 15. If April 15 falls on a Saturday, Sunday, or legal holiday, the due date is the next business day.

If you mail your return on the due date, you should do so early enough in the day to ensure that the envelope is postmarked on that same day. If your return is postmarked after the due date and you owe tax, there may be penalties for not filing your return on time or not paying the tax when it is due.

You should send your return to the Internal Revenue Service Center for your region. Use the envelope you received in your forms package if forms were sent to you by the Internal Revenue Service. Otherwise, send your return to the correct address listed in the form instructions.

#### Tax Planning

It is important for you to be aware of our tax laws. If you know and understand the tax laws, you may be able to save on tax. You may want to plan when to sell or buy items, because these transactions may affect the amount of tax you pay. This is called tax planning.

Most of our tax laws are written to cover an entire year. The year in which you make certain transactions can affect your tax for that year.

In a few years, most of you will be working full time. As your income increases, you will be paying a higher tax rate on the increased amounts. It will be important to you then to manage your money with the tax laws in mind.

### Your Rights

You have the right to privacy for tax information that is on file with the Internal Revenue Service. The Service is required by law to protect this information from being disclosed, except as provided by the Internal Revenue Code. For example, the Internal Revenue Service has exchange agreements with state tax agencies for information concerning changes in tax liabilities. If either your federal or state tax return is changed because of an examination or because you are filing an amended return that changes your tax liability, this information may be shared with the other agency.

#### If Your Return Is Examined

The Internal Revenue Service reviews all returns to make sure they have been properly filled out. Computers are used to check all arithmetic. If you have made an error, your tax is automatically refigured, and you will receive a bill or a refund. If you have made an entry that is not allowed, you will be notified by mail. Returns will not be selected for examination prior to this first review and processing.

The Internal Revenue Service tries not to examine the same taxpayer's returns year after year. Sometimes a return is selected for the same reason that a prior return had been examined in the previous year or two. If the earlier examination did not result in an increase in taxes, a special review is made before a return is examined for the same reason.

In most examinations, the Internal Revenue Service simply requests more information to support the entries on your tax return. In order for you to support the figures on your return, you must keep accurate records. These include receipts, cancelled checks, and other evidence to prove amounts you claim as deductions. If you owe more tax, you will also have to pay interest and you may have to pay a penalty on the additional tax.

The examination does not always result in a change to the tax liability. In some cases, the tax liability is reduced and the taxpayer receives a refund plus interest figured from the due date of the return. The place and method for examining your return is decided by the

Internal Revenue Service. If there are only one or two questions, you may be asked to reply by mail. The examination might be done in your home or place of business, at an Internal Revenue office, or in the office of your lawyer or accountant. If the date or place for an examination is not convenient (perhaps you have moved to another area), you may ask the examiner to schedule a different time and location.

During the examination, you have the right to act on your own behalf or have someone represent you at the meeting. If you wish to have your lawyer, accountant, tax preparer, or some other person represent you at the examination, you must give written permission to the Internal Revenue Service for that person to represent you. The preparer who signed your return may represent or accompany you.

The examiner may make some adjustments to your return. Most changes in tax liability are agreed on at this point. You have the right to ask the examiner how he or she arrived at these changes. If you agree with the examiner's findings, you will be asked to sign an agreement form. By signing the form, you indicate you agree to the changes made to your return. If you do not agree with the examiner's findings, the examiner will explain your appeal rights. They include your right to request an immediate meeting with the examiner's supervisor.

### Rights of Appeal

If you do not agree with the examiner's proposed changes or with the examiner's supervisor, IRS will send you 1) A letter notifying you of your right to appeal the proposed adjustments within 30 days, 2) A copy of the examination report explaining the proposed adjustments, 3) An agreement or waiver form, and 4) A copy of Publication 5, *Appeal Rights and Preparation of Protests for Unagreed Cases*. If after receiving the examination report, you decide to agree with the examiner's findings, sign the agreement or waiver form and return it to the examiner.

If you still disagree, the IRS urges you to use the level of appeal within the Internal Revenue Service. Appeals conferences are conducted as informally as possible.

If you and the Internal Revenue Service still disagree after your conference, or if you skipped our appeals system, you may take your case to the United States Tax Court, the United States Claims Court, or your United States District Court. These courts are independent judicial bodies and have no connection with the Internal Revenue Service. Sometimes tax cases go all the way to the United States Supreme Court.

Publication 556, *Examination of Returns, Appeal Rights, and Claims for Refunds*, gives more information about your rights.

### Unresolved Tax Problems

IRS has a Problem Resolution Program for taxpayers who have been unable to resolve their problems with IRS. If you have a tax problem that you have been unable to resolve through normal channels, write your IRS District Director or call your local IRS office and ask for Problem Resolution assistance.

This office will help you with your problem and insure that it receives proper attention. Although the Problem Resolution Office cannot change the tax law or technical decisions, it can frequently clear up misunderstandings that resulted from previous contacts.

### Collecting Taxes

As we mentioned earlier, computers check all returns for mathematical accuracy. The Internal Revenue Service will send you a bill if you owe more tax. If you disagree with your bill or need an explanation of why the tax was assessed, you should promptly reply to the address on the bill. If you agree with the bill, pay it in full and keep a copy for your records. Also make sure your social security number is shown on the bill. If you agree with the bill but you cannot pay it, you should contact your Internal Revenue Service office immediately. Depending on individual circumstances IRS can sometimes make arrangements for installment payments. If you are granted an installment agreement, you should make each payment promptly as agreed, so as to avoid a lien or levy against your property.

IRS Collection has the power to collect unpaid taxes by filing a federal tax lien or by levying against your property. The lien is a public notice that the federal government has a legal interest in your property. A levy is the taking of your property to pay your tax bill. A levy can be made on your wages, bank account, car, or other property. The Internal Revenue Service has the authority to sell your property to pay the tax, if necessary.

IRS Collection will take lien or levy actions only as a last resort. Your credit rating could be affected, and such action could cause you embarrassment or hardship. Before taking any of these steps a revenue representative or a revenue officer will try to contact you to make arrangements for payment.

### Criminal Investigations

The purpose of IRS Criminal Investigations is to ensure tax compliance among all groups of taxpayers. Although the investigation of racketeers and organized crime is an important aspect of IRS enforcement activities, over the years the IRS investigations have resulted in convictions for tax evasion of persons in almost every occupation, profession, and segment of the economy. The increased scope of the tax laws, changing business practices, and sophisticated computer technology have made the job of IRS Criminal Investigations special agents more demanding than ever.

# MODULE 2

## How to Prepare an Income Tax Return

## Part I—Form 1040EZ

### Objectives

At the end of this lesson you will be able to:

1. Determine who must file an income tax return
2. Determine who can use Form 1040EZ
3. Prepare a Form 1040EZ.

### Introduction

This module is divided into three parts. Each part explains a different income tax return form. There are three income tax return forms for U.S. citizens and residents—Form 1040EZ, Form 1040A, and Form 1040. There are exemptions, deductions, and credits that you cannot claim on Form 1040EZ that you can claim on Form 1040A or Form 1040. However, Form 1040EZ is the easiest form to prepare, and you should use it if you can. In this part you will learn what the filing requirements are for all taxpayers. You will then learn who can use Form 1040EZ and how to prepare it.

### Filing Requirements

Will you have to file a federal income tax return? The answer to this question will depend on your filing status, whether you are age 65 or older, and the amount of your gross income. Each of these items will be discussed separately.

### Filing Status

Your filing status depends on your marital status and other factors. If you have never been married, do not have any children, and do not have any dependents, your filing status is "single." Other filing statuses are married filing a joint return, married filing a separate return, head of household, and qualifying widow(er) with dependent child.

Congress set different tax rates for each filing status, based on our principle of taxing income according to ability to pay. For example, the income of a married couple filing a joint return is taxed at a lower percentage rate than the income of a single person.

### Gross Income

Gross income is all the income you receive that is not exempt from tax. For most taxpayers, gross income includes wages, tips, interest, dividends, and income from self-employment.

Income from certain sources is not included in gross income and, therefore, is not subject to tax. For most taxpayers, nontaxable income includes child support payments, gifts and inheritances, federal income tax refunds, most life insurance proceeds, most scholarships, some social security benefits, veterans' benefits and some workmen's compensation.

**Tips.** All tips you receive must be included in your gross income. In addition, if you receive tips totaling $20 or more in any month while you are working for one employer, you must report the total to the employer on or before the 10th day of the following month. When you leave your job, you must report your tips to your employer at that time and before final payment of wages. These tips are subject to withholding of income tax and social security tax.

If your tips amount to less than $20 in one month, you do not have to report them to your employer, but you must include them in your income.

**Interest.** Interest you receive must be included in your income unless the interest is exempt from tax. Interest is the payment you receive for letting someone use your money. When you put money in a savings account, it does not just stay in the bank's vault. The bank lends this money to other people and charges a fee, called interest, for the use of this money. In turn, the bank pays a smaller rate of interest to you for the use of your money. The bank, or similar organization like a credit union, is a clearing house. People who want to save their money can deposit it and earn interest, and people who need to borrow money can get loans and pay interest.

Some savings banks and credit unions may report your interest to you as "dividends." This is because these institutions have a different corporate structure than commercial banks. However, these "dividends" are actually interest, because you are being paid for the use of your money. You must include them in your gross income as interest.

When you buy a U.S. Savings Bond, you are loaning money to the government. If you hold the bond for a time before you cash it, you will receive more money than you paid for the bond. The difference between what you paid and what you receive is interest. You may report all of this interest in the year you cash the bond, or you may report as interest each year the increase in the value of the bond. Most people report the interest when they cash the bond.

Interest from some sources is exempt from federal tax. This includes interest paid on state and municipal bonds. This interest is exempt from tax because our government encourages people to buy these bonds. These bonds usually pay a lower rate of interest than banks pay.

Interest is included in gross income in the year you receive it or it is made available to you. For example, you are taxed on the interest that is credited to your savings account at the end of the year, even if you do not present your passbook to have the interest entered.

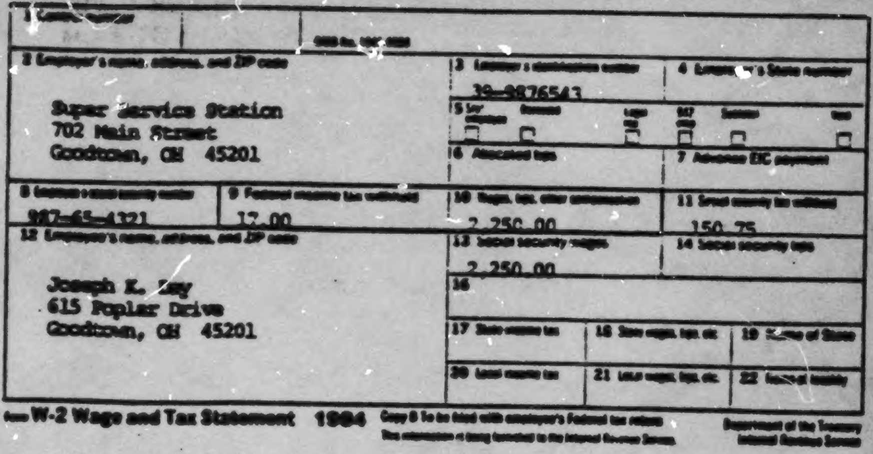
**Dividends.** Dividends from corporations must be reported on your return. There are several types of corporate dividends; but we will limit our discussion to the most common type, the ordinary dividend. An ordinary dividend is a distribution by a corporation out of its earnings and profits. This distribution of profits is sent to shareholders (the owners) of the corporation.

If you own stock in a corporation, you are one of the owners. If the corporation has made a profit, you, as one of the owners, will share in the profit. The corporation will send dividends to you or reinvest your dividends—that is, they will buy more stock for you with your dividend income. These dividends generally are included in your gross income.

**Dividend exclusion.** You may exclude from income, on your return, up to $100 of your dividend income. If you are married and filing a joint return, you and your spouse may exclude up to $200 of your combined dividend income.

Your total dividends must be included in your gross income and reported on your return. You then subtract the amount of the exclusion on your return.

To qualify for the exclusion, your dividends must be received from domestic corporations. Dividends from certain corporations do not qualify for the exclusion. These include foreign corporations, organizations that are exempt from tax (such as a church), and regulated investment companies (including money market funds).


3 39-9876543

Super Service Station
702 Main Street
Goodtown, OH 45201

987-65-4321

9 17.00

10 2,250.00

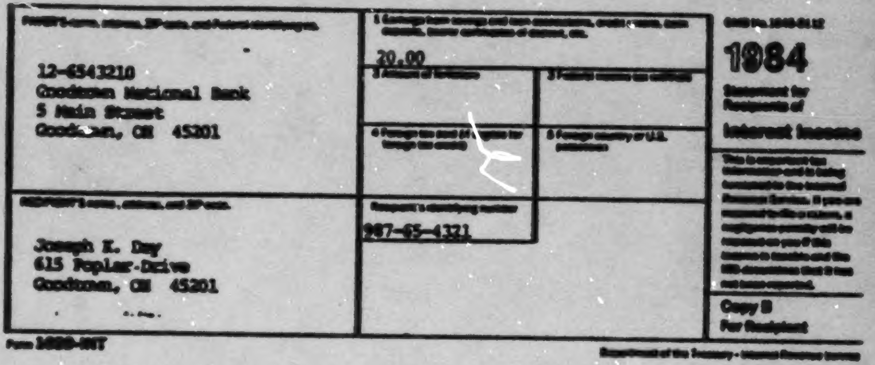
11 150.75

Joseph K. Day
615 Poplar Drive
Goodtown, OH 45201

13 2,250.00

Form W-2 Wage and Tax Statement 1984

Figure 2-1


12-6543210
Goodtown National Bank
5 Main Street
Goodtown, OH 45201

Joseph K. Day
615 Poplar Drive
Goodtown, OH 45201

20.00

987-65-4321

1984

Interest Income

Copy B

Form 1099-INT

Figure 2-2

## Who Must File

| You must file a return by the due date, even if you owe no tax, if you were: | And your gross income was at least |
|---|---|
| **Single and:** | |
| Under 65 | $3,300 |
| 65 or older | $4,300 |
| **Married, filing a joint return, and living with your spouse at the end of the year (or on the date your spouse died), and:** | |
| Both were under 65 | $5,400 |
| One was 65 or older | $6,400 |
| Both were 65 or older | $7,400 |
| **Married and filing a separate return, or married but not living with your spouse at the end of the year** | $1,000 |
| **A qualifying widow or widower with dependent child and:** | |
| Under 65 | $4,400 |
| 65 or older | $5,400 |

BEST COPY AVAILABLE

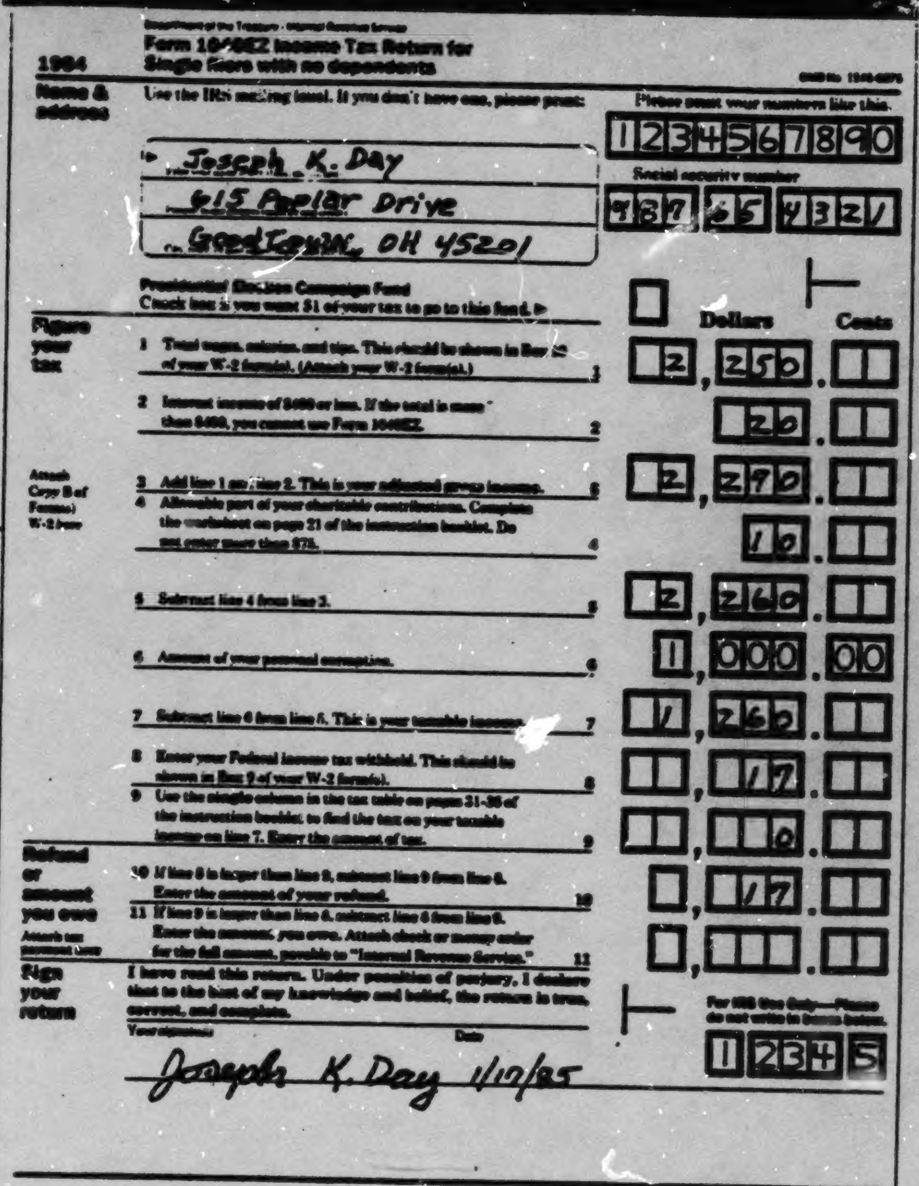
Even if your income is less than the amount shown as your filing requirement, you must file a return if any of the three following requirements applies to you:

1. You received tips from which social security tax was not withheld;
2. You were in business for yourself and had net earnings of $400 or more from that business. This is called self-employment income; or
3. You can be claimed as a dependent on your parent's return and you had unearned income, such as interest or dividends, of $1,000 or more.

## Who Can Use Form 1040EZ

You can use this form if you meet all these conditions:

1. Your filing status is single.
2. You can claim only one personal exemption.
3. All of your income is from wages, salaries, tips, and interest.
4. Your interest income is $400 or less.
5. Your taxable income is less than $50,000.



Department of the Treasury - Internal Revenue Service

**1984** **Form 1040EZ Income Tax Return for Single filers with no dependents**

OMB No. 1545-0675

**Name & address** Use the IRS mailing label. If you don't have one, please print:

Joseph K. Day
615 Poplar Drive
GoodTown, OH 45201

Please print your numbers like this. 1234567890

Social security number 987-65-4321

Presidential Election Campaign Fund
Check box if you want $1 of your tax to go to this fund. ▶ ☐

| | | Dollars | Cents |
|---|---|---|---|
| **Figure your tax** | 1 Total wages, salaries, and tips. This should be shown in Box 10 of your W-2 form(s). (Attach your W-2 form(s).) 1 | 2,250 | |
| | 2 Interest income of $400 or less. If the total is more than $400, you cannot use Form 1040EZ. 2 | 20 | |
| Attach Copy B of Form(s) W-2 here | 3 Add line 1 and line 2. This is your adjusted gross income. 3 | 2,270 | |
| | 4 Allowable part of your charitable contributions. Complete the worksheet on page 21 of the instruction booklet. Do not enter more than $75. 4 | 10 | |
| | 5 Subtract line 4 from line 3. 5 | 2,260 | |
| | 6 Amount of your personal exemption. 6 | 1,000 | 00 |
| | 7 Subtract line 6 from line 5. This is your taxable income. 7 | 1,260 | |
| | 8 Enter your Federal income tax withheld. This should be shown in Box 9 of your W-2 form(s). 8 | 17 | |
| | 9 Use the single column in the tax table on pages 31-36 of the instruction booklet to find the tax on your taxable income on line 7. Enter the amount of tax. 9 | 0 | |
| **Refund or amount you owe** | 10 If line 8 is larger than line 9, subtract line 9 from line 8. Enter the amount of your refund. 10 | 17 | |
| Attach tax payment here | 11 If line 9 is larger than line 8, subtract line 8 from line 9. Enter the amount you owe. Attach check or money order for the full amount, payable to "Internal Revenue Service." 11 | | |

**Sign your return** I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and complete.

Your signature Date

Joseph K. Day 1/17/85

For IRS Use Only—Please do not write in boxes below.

1 2 3 4 5

Figure 2-3 (The instruction pages referred to on this form are not pages in this publication.)

If you are single and your total income is less than $3,300, you usually are not required to file a return. However, if you had any tax withheld from your pay, you should file a return to get that money refunded to you.

## Preparing Form 1040EZ

You will learn how to prepare Form 1040EZ from the examples of two people. After each example, you will prepare a similar return. Be sure to follow the instructions on Form 1040EZ for filling in the amounts.

### Example

Joseph Day, a high school student, worked part-time as a gas station attendant in 1984. For the first few weeks that he worked, his employer withheld income tax from his pay. Joe then figured that because his total income for the year would be less than $3,300 he would not have a tax liability. He did not work in 1983, so he did not have a tax liability that year. Therefore, Joe filled out a new Form W–4 for his employer and claimed exemption from withholding. His employer did not withhold income tax from Joe's pay after that date.

At the end of the year, Joe received copies of Form W–2 from his employer, as shown in Figure 2–1. Form W–2 shows $17 withheld for income tax from Joe's wages and Joe's total earnings of $2,250.

Joe should file an income tax return to claim a refund for the income tax

BEST COPY AVAILABLE

that was withheld from his wages. In addition to his wages, Joe had $20 of interest credited to his savings account in 1984. This amount is shown on the Form 1099–INT (Figure 2–2) that he received from the bank. He gave his church $40 last year. Joe can use Form 1040EZ because his filing status is single, all his earnings are from wages, and his interest income is $20. Look at Figure 2–3 to see how Joe prepared his return.

**Name and address.** Joe printed his name, social security number, and complete mailing address.

**Presidential Election Campaign Fund.** This fund was established by Congress to help pay campaign expenses of presidential candidates. If you have a tax liability, you can have one of your tax dollars go to this fund by checking the box. Joe could not check this box because he did not have a tax liability.

**Figure your tax.** On line 1, Joe put his total wages of $2,250, the amount that is shown on his Form W–2. On line 2, he put his interest income of $20, and added his wages and interest on line 3. This is his adjusted gross income.

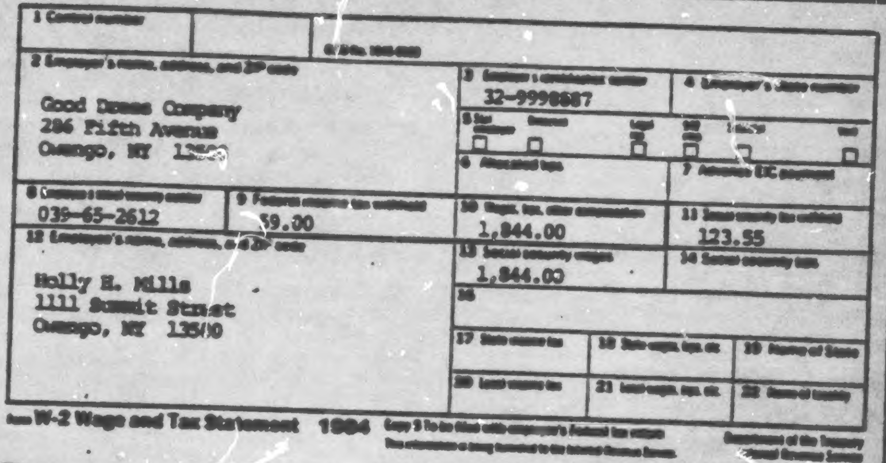
Line 4 is for charitable contributions. You can deduct up to 25% of the first $300 you gave to charitable organizations such as a church or the United Fund. The maximum deduction is $75. Joe gave $40 to his church last year, so he put $10 on line 4 and on line 5 he subtracted this amount from his adjusted gross income.

Line 6 is preprinted for your personal exemption. Every taxpayer is allowed at least one personal exemption. Each exemption reduces income by $1,000. You will learn more about exemptions in Part II. Joe subtracted the $1,000 from line 5 and put the difference, $1,260 on line 7. This is his taxable income.

On line 8, Joe entered the $17 income tax withheld from his wages. Since he does not have any tax liability, he put "0" on line 9.

**Refund or amount you owe.** Joe is entitled to a refund of the full amount of tax withheld. He entered this amount on line 10.

**Sign your return.** Joe signed and dated his return and attached Copy B of his Form W–2 to the return at the point indicated. If he forgets to attach the Form W–2, the Internal Revenue Service will have to write to him to ask for it. This will hold up the processing of his return and will delay his refund. Joe mailed the completed return to the Internal Revenue Service Center for the state where he lives. The service center addresses are given in the form instructions. Joe kept a copy of his return.



Good Dream Company
286 Fifth Avenue
Owengo, NY 13500

3 32-9998887

8 039-65-2612

9 59.00

10 1,844.00

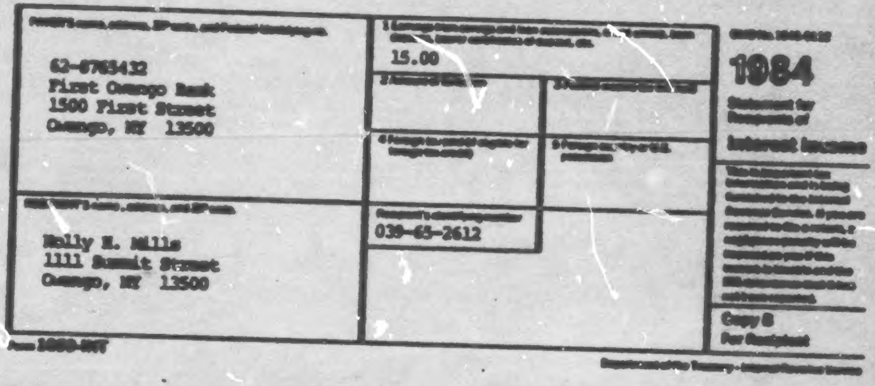
11 123.55

12
Holly H. Mills
1111 Summit Street
Owengo, NY 13500

13 1,844.00

W-2 Wage and Tax Statement 1984

Figure 2-4



62-6765432
First Owengo Bank
1500 First Street
Owengo, NY 13500

1 15.00

Holly H. Mills
1111 Summit Street
Owengo, NY 13500

039-65-2612

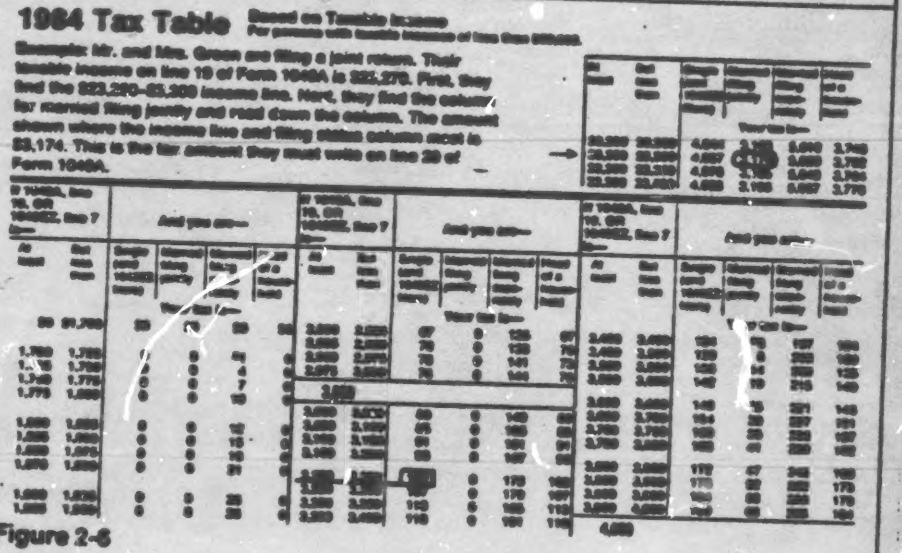
1984

Interest Income

Copy B
For Recipient

Form 1099-INT

Figure 2-5



1984 Tax Table Based on Taxable Income
For persons with taxable incomes of less than $50,000.

Example: Mr. and Mrs. Green are filing a joint return. Their taxable income on line 19 of Form 1040A is $23,270. First, they find the $23,250–23,300 income line. Next, they find the column for married filing jointly and read down the column. The amount shown where the income line and filing status column meet is $3,174. This is the tax amount they must write on line 20 of Form 1040A.

Figure 2-6

### Problem 1

Holly Mills is a high school student. She worked as a clerk in a clothing store during her summer vacation. She could not claim an exemption from withholding since she had paid tax in 1983. She did claim the special withholding allowance allowed a single person with only one employer. Shortly after Holly left her job and returned to school she received a Form W–2 from her employer (see Figure 2–4). Holly had $15 of interest credited to her savings account in 1984, as shown on her Form 1099–INT (Figure 2–5). She gave $32 to her church last year. Her filing status is single. Fill out a Form 1040EZ for Holly.

## Tax Table

In the example of Joseph Day you learned how to file a return to get a refund. In the next example you will learn how to file a return that has a tax liability. First, you will have to know how to find the tax liability in the *Tax Table*. Part of the table is shown in Figure 2–8.

Tax liability is figured from taxable income. On Form 1040EZ, taxable income is the amount shown on line 7.

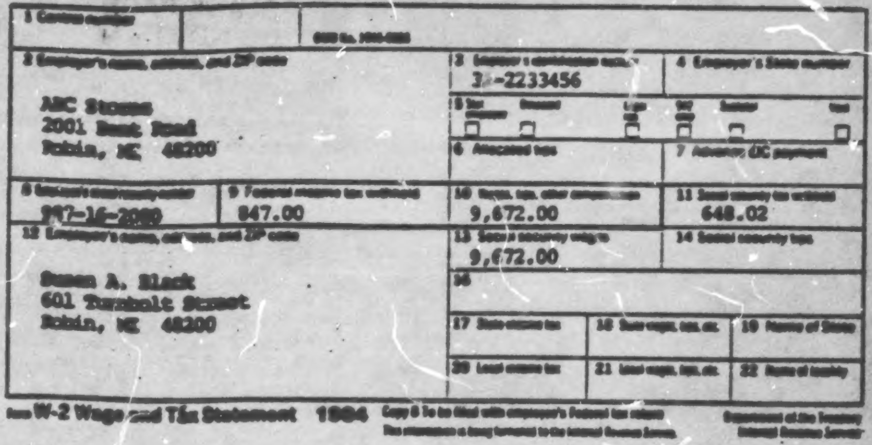
To find your tax, read down the taxable income column until you find your income. Next, read across to the column for "Single (including 1040EZ filers)" taxpayers. The amount shown where the two lines meet is your tax.

For example, if your taxable income is $3,225, read down the taxable income column to "At least" $3,200—"but less than" $3,250. Stop on that line, because your taxable income is between these two amounts. Next, read across to the "Single (including 1040EZ filers)" column to find your tax. Your federal income tax liability is $102. If your taxable income is $3,150, your tax liability is $96 because your income is "At least" this amount.

### Problem 2

Use the *Tax Table* starting on page 40 to find the tax liability for a single person with the following taxable incomes:

| Taxable Income | Tax Liability |
|---|---|
| $ 4,852 | ______________ |
| $ 8,145 | ______________ |
| $ 8,349 | ______________ |
| $10,941 | ______________ |
| $ 9,257 | ______________ |
| $ 6,850 | ______________ |



1 Control number

OMB No. 1545-0008

2 Employer's name, address, and ZIP code

ABC Stores
2001 Best Road
Robin, MI 48200

3 Employer's identification number
3[illegible]-2233456

4 Employer's State number

5 Stat. employee ☐ Deceased ☐ Legal rep. ☐ 942 emp. ☐ Subtotal ☐ Void ☐

6 Allocated tips

7 Advance EIC payment

8 Employee's social security number
987-16-2080

9 Federal income tax withheld
847.00

10 Wages, tips, other compensation
9,672.00

11 Social security tax withheld
648.02

12 Employee's name, address, and ZIP code

Susan A. Black
601 Turnbolt Street
Robin, MI 48200

13 Social security wages
9,672.00

14 Social security tips

16

17 State income tax

18 State wages, tips, etc.

19 Name of State

20 Local income tax

21 Local wages, tips, etc.

22 Name of locality

Form W-2 Wage and Tax Statement 1984

Copy B To be filed with employee's Federal tax return
This information is being furnished to the Internal Revenue Service.

Department of the Treasury
Internal Revenue Service

Figure 2-7

### Example

Susan Black's filing status is single and she can claim only one personal exemption. She works for ABC Stores. In January 1985, Susan received her Form W–2 from her employer (Figure 2–7), and Form 1099–INT from her bank (Figure 2–8). Look at Figure 2–9 to see how Susan prepared her Form 1040EZ.

**Name and address.** Susan filed a Form 1040EZ last year so she received a preaddressed label with the forms package that the Internal Revenue Service sent to her in the mail. The top line of the label shows two Internal Revenue Service processing letters, Susan's social security number, and the IRS District Office number in her area. The label also shows her name and address. Susan checked to make sure that her name, address, and social security number were correct.

**Presidential Election Campaign Fund.** Susan knew she had a tax liability. She checked the box so that $1 of her tax would go into this fund.

**Figure your tax.** On line 1 Susan put the total salary she received, $9,672, as shown in box 10 of her Form W–2. On line 2 she put the $25 of interest that she received. She totaled lines 1 and 2 on line 3. Since she gave $20 to the United Fund last year, she put 25% of this amount on line 4 and subtracted it on line 5. On line 7 she subtracted the $1,000 personal exemption shown on line 6. Line 7 is her taxable income.

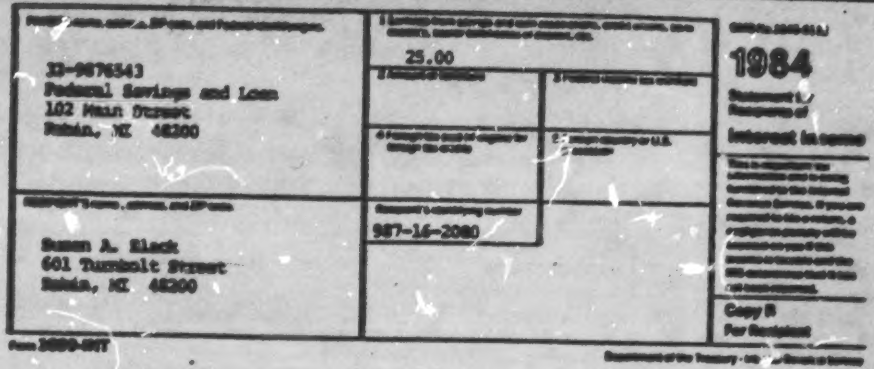
Susan then checked her Form W–2 to find the amount of tax withheld from her pay. She put this amount, $847, on line 8. She now had to find her tax liability in the *Tax Table*. Susan checked her taxable income, $8,677, and followed down the taxable income column to "At least" $8,650—"But less than" $8,700. Her tax is $863, which she put on line 9.

**Refund or amount you owe.** The tax withheld, line 8, was less than the tax on line 9, so Susan subtracted line 8 from line 9 and put the difference, $16, on line 11. Susan must pay this amount with her return.

**Sign your return.** Susan signed and dated her return and attached Copy B of her Form W–2 to the return at the point indicated. She also attached a check made payable to "Internal Revenue Service," for the amount she owes. Susan kept a copy of her return.

### Problem 3

Donald Pine's filing status is single and he can claim only one personal exemption. He works for ACE Engineering Company. Donald received a Form W–2 from his employer in January 1985 (Figure 2–10). Donald also received interest from his savings account as shown on Form 1099–INT (Figure 2–11). He gave $100 to his church last year. Fill out a Form 1040EZ for Donald. He does not want $1 of his taxes to go to the Presidential Election Campaign Fund. Use the *Tax Table* to determine Donald's tax liability and refund due, if any.



1984

Statement for Recipients of Interest Income

25.00

33-9876543
Federal Savings and Loan
102 Main Street
Rubin, MI 48200

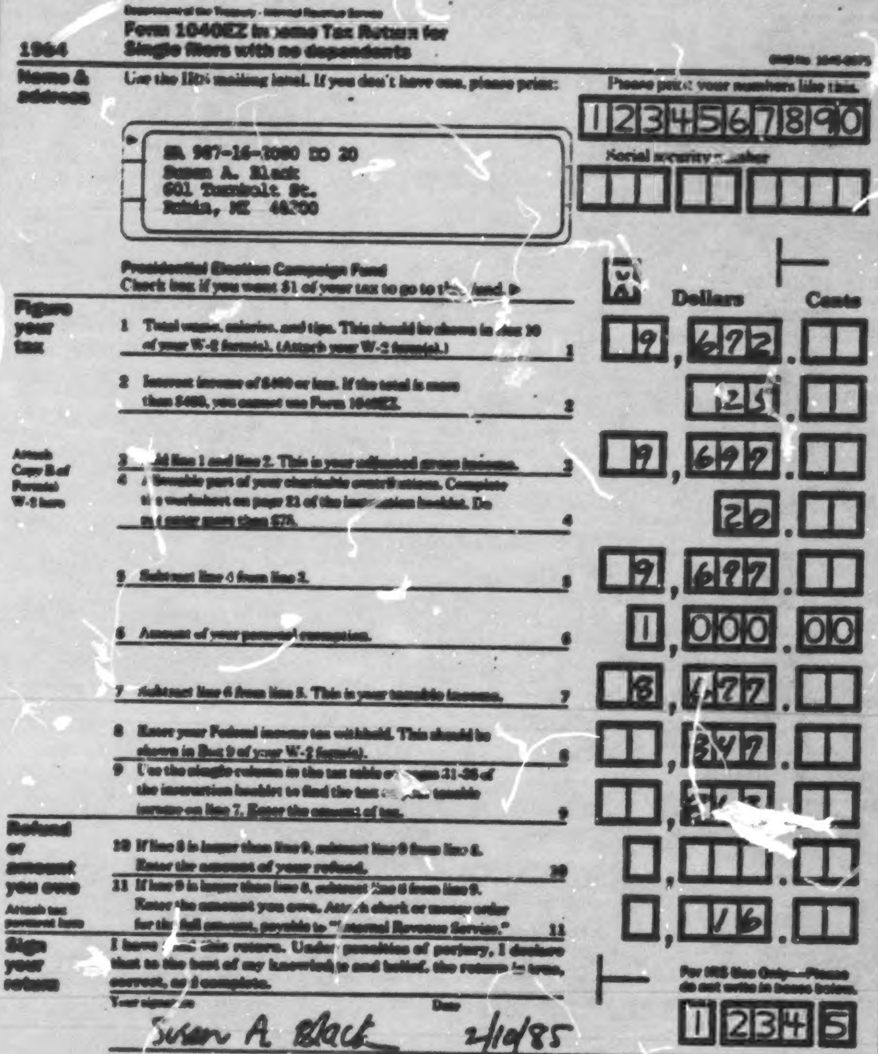
987-16-2080

Susan A. Black
601 Turnbolt Street
Rubin, MI 48200

Copy B
For Recipient

Form 1099-INT

Figure 2-8



Form 1040EZ Income Tax Return for Single filers with no dependents

1984

Name & address

Use the IRS mailing label. If you don't have one, please print:

Please print your numbers like this.

1 2 3 4 5 6 7 8 9 0

SB 987-16-2080 DO 20
Susan A. Black
601 Turnbolt St.
Rubin, MI 48200

Social security number

Presidential Election Campaign Fund
Check box if you want $1 of your tax to go to this fund. ▶ ☒

Figure your tax

Attach Copy B of Form(s) W-2 here

| | | Dollars | Cents |
|---|---|---|---|
| 1 Total wages, salaries, and tips. This should be shown in Box 10 of your W-2 form(s). (Attach your W-2 form(s).) | 1 | 9,672. | |
| 2 Interest income of $400 or less. If the total is more than $400, you cannot use Form 1040EZ. | 2 | 25. | |
| 3 Add line 1 and line 2. This is your adjusted gross income. | 3 | 9,697. | |
| 4 Allowable part of your charitable contributions. Complete the worksheet on page 21 of the instruction booklet. Do not enter more than $75. | 4 | 20. | |
| 5 Subtract line 4 from line 3. | 5 | 9,677. | |
| 6 Amount of your personal exemption. | 6 | 1,000. | 00 |
| 7 Subtract line 6 from line 5. This is your taxable income. | 7 | 8,677. | |
| 8 Enter your Federal income tax withheld. This should be shown in Box 9 of your W-2 form(s). | 8 | 347. | |
| 9 Use the single column in the tax table on pages 31-36 of the instruction booklet to find the tax on your taxable income on line 7. Enter the amount of tax. | 9 | [illegible] | |

Refund or amount you owe

Attach tax payment here

| | | | |
|---|---|---|---|
| 10 If line 8 is larger than line 9, subtract line 9 from line 8. Enter the amount of your refund. | 10 | | |
| 11 If line 9 is larger than line 8, subtract line 8 from line 9. Enter the amount you owe. Attach check or money order for the full amount, payable to "Internal Revenue Service." | 11 | 16. | |

Sign your return

I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and complete.

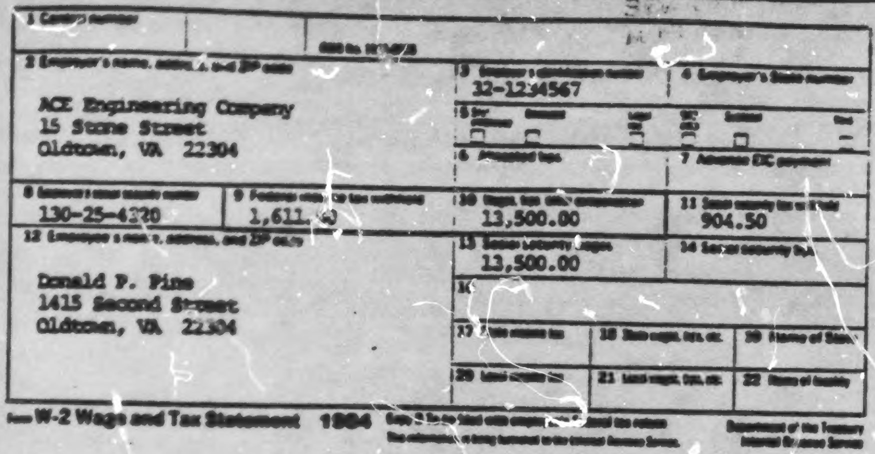
Your signature Susan A. Black Date 2/10/85

For IRS Use Only—Please do not write in boxes below.

1 2 3 4 5

BEST COPY AVAILABLE

Figure 2-9 (The instruction pages referred to on this form are not pages in this publication.)



3 Employer's identification number
32-1234567

ACE Engineering Company
15 Stone Street
Oldtown, VA 22304

130-25-4320

1,611.00

10 Wages, tips, other compensation
13,500.00

11 Social security tax withheld
904.50

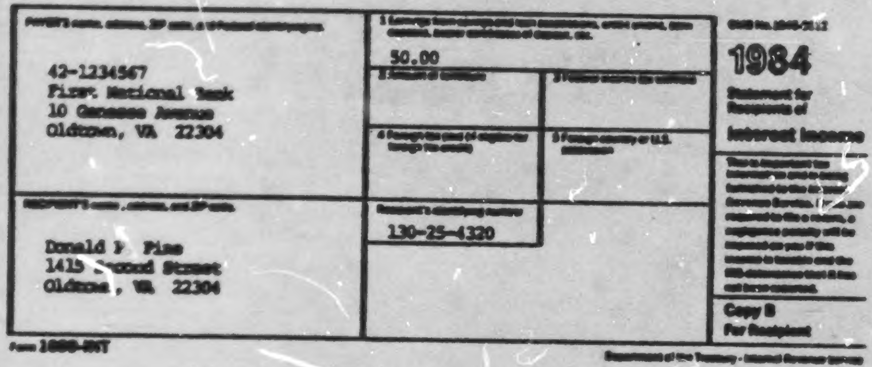
13 Social security wages
13,500.00

Donald P. Pine
1415 Second Street
Oldtown, VA 22304

Form W-2 Wage and Tax Statement 1984

Department of the Treasury
Internal Revenue Service

Figure 2-10



42-1234567
First National Bank
10 Genesee Avenue
Oldtown, VA 22304

50.00

Donald P. Pine
1415 Second Street
Oldtown, VA 22304

130-25-4320

1984

Statement for Recipients of

Interest Income

Copy B
For Recipient

Form 1099-INT

# MODULE 2

## Part II—Form 1040A

### Objectives

At the end of this lesson you will be able to:

1. Determine who may file Form 1040A
2. Determine a taxpayer's correct filing status and correct number of exemptions
3. Prepare a Form 1040A

### Introduction

In this part you will learn who may use Form 1040A and how to prepare it. To do this, you will have to learn which filing status a person should use, which exemptions a person can claim, and who is allowed to claim certain deductions and credits.

### Who May Use Form 1040A

You may use Form 1040A if your taxable income is less than $50,000 and your income is from wages, salaries, tips, interest, ordinary dividends, unemployment compensation or any combination of these items. The only deductions you are allowed on Form 1040A are the deduction for an individual retirement arrangement (IRA), the deduction for a married couple when both work, and the deduction for part of your charitable contributions. Credits on Form 1040A are limited to the partial credit for political contributions, the credit for child and dependent care expenses, and the earned income credit. If you have other types of income to report, or deductions and credits you want to claim, you must use Form 1040.

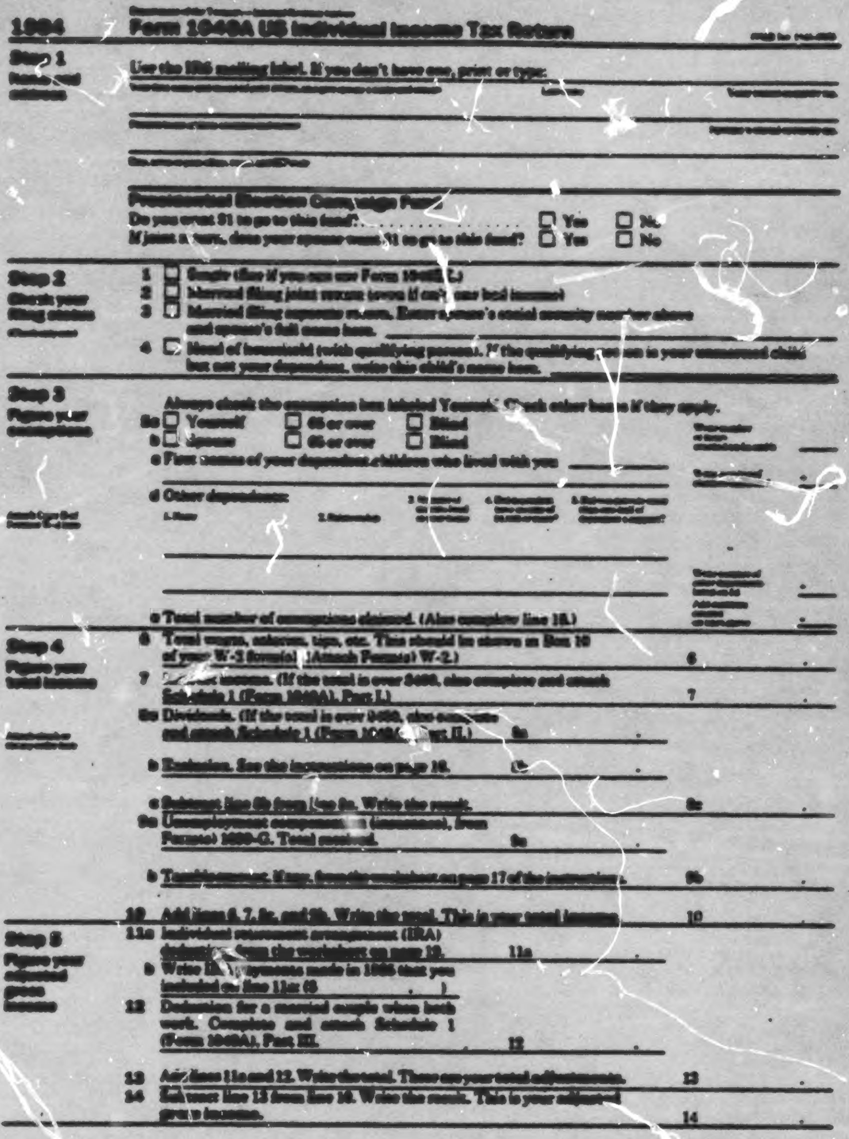
There is an exception to the rule for the use of Form 1040A. It occurs when you are listed as a dependent on another person's tax return. If you are another person's dependent and your unearned income (interest, dividends, trust income) is more than $1,000 and your wages are less than $2,300, you must file Form 1040 and you must itemize your deductions.

## Preparing Form 1040A

You will learn how to prepare Form 1040A with a line-by-line explanation of items on the form followed by an example. You will then prepare a return similar to the example.

The top part, Step 1, of Form 1040A identifies you. Look at Figure 2–12. Your name and social security number should appear exactly as shown on your social security card. If you filed a return last year, you should receive a tax package in the mail. This package contains tax forms, forms preparation instructions, an envelope for mailing your return, and a peel-off name and address label. Always use the peel-off label when filing your return. If any information on the label is wrong, make the necessary corrections right on the label and attach it to your return. If you haven't received a tax package, be sure to enter your current mailing address, including the ZIP Code, on your return. If your post office delivers mail to your P.O. Box rather than to a street address, write your P.O. Box number on the line for your present home address. Errors in Step 1 can delay your refund.

The next part is where you check Yes or No for the Presidential Election Campaign Fund. That check mark is your opportunity to tell the government how to spend one of your tax dollars.



1986 Form 1040A US Individual Income Tax Return

**Step 1** Name and address

Use the IRS mailing label. If you don't have one, print or type:

**Presidential Election Campaign Fund**

Do you want $1 to go to this fund? ☐ Yes ☐ No

If joint return, does your spouse want $1 to go to this fund? ☐ Yes ☐ No

**Step 2** Check your filing status

1 ☐ Single (See if you can use Form 1040EZ.)

2 ☐ Married filing joint return (even if only one had income)

3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ____

4 ☐ Head of household (with qualifying person). If the qualifying person is your unmarried child but not your dependent, write this child's name here. ____

**Step 3** Figure your exemptions

Always check the exemption box labeled Yourself. Check other boxes if they apply.

5a ☐ Yourself ☐ 65 or over ☐ Blind

b ☐ Spouse ☐ 65 or over ☐ Blind

c First names of your dependent children who lived with you ____

d Other dependents:

e Total number of exemptions claimed. (Also complete line 18.)

**Step 4** Figure your total income

6 Total wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) 6

7 Interest income. (If the total is over $400, also complete and attach Schedule 1 (Form 1040A), Part I.) 7

8a Dividends. (If the total is over $400, also complete and attach Schedule 1 (Form 1040A), Part II.) 8a

b Exclusion. See the instructions on page 18. 8b

c Subtract line 8b from line 8a. Write the result. 8c

9a Unemployment compensation (insurance), from Form(s) 1099-G. Total received. 9a

b Taxable amount, if any, from the worksheet on page 17 of the instructions. 9b

10 Add lines 6, 7, 8c, and 9b. Write the total. This is your total income. 10

**Step 5** Figure your adjusted gross income

11a Individual retirement arrangement (IRA) deduction, from the worksheet on page 19. 11a

b Write IRA payments made in 1986 that you included on line 11a ($ . )

12 Deduction for a married couple when both work. Complete and attach Schedule 1 (Form 1040A), Part III. 12

13 Add lines 11a and 12. Write the total. These are your total adjustments. 13

14 Subtract line 13 from line 10. Write the result. This is your adjusted gross income. 14

Figure 2-12 (The instruction pages referred to on this form are not pages in this publication.)

### Filing Status

Step 2 shows your filing status. Your filing status determines the rate at which your income is taxed. Therefore, you should choose the most advantageous one you are allowed to use.

The filing statuses on Form 1040A, listed from the lowest tax rate to the highest tax rate, are:

—Married filing joint return
—Head of household
—Single
—Married filing separate return.

We will discuss each filing status as it appears on Form 1040A. A fifth filing status, qualifying widow(er) with dependent child, can be claimed only if you file Form 1040. The tax rates are the same as for the married filing joint status.

### Single

Most high school students who file a return must use the single filing status because they have never married. This filing status also covers certain other people, such as taxpayers who are divorced or widowed and do not qualify to use another filing status.

### Married Filing Joint Return

If you are married by the last day of the tax year, you may file a joint return. A joint return must show all the income and deductions of both you and your spouse. You may file jointly even if only one of you worked or even if you lived apart. Both of you must sign a joint return, and you both may be responsible for the tax and any penalties due on a joint return.

### Married Filing Separate Return

You may be married but choose to file separately, reporting only your own income, exemptions, and deductions on your separate return. If your spouse had no income and was not another taxpayer's dependent, you may file a separate return claiming exemptions for both spouses. Usually married persons file separately when neither wants to be responsible for the other spouse's tax liability. In most cases, separate returns result in a greater total tax liability.

You must include your spouse's full name on line 3 and your spouse's social security number on the appropriate line in Step 1.

### Head of Household

You may file as head of household if you are single, or if you are married and did not live with your spouse at any time during the year. You also must have provided over half the cost of keeping up a home that was the principal home all year for any of the following relatives:

1. Your unmarried child who lived with you. This child does not have to be your dependent. If this child is not

your dependent, you must write the child's name on line 4.

2. Your married child who lived with you. This child must qualify as your dependent.
3. Your foster child who lived with you. This child must qualify as your dependent.
4. Any other relative related to you more closely than a cousin and who lived with you. This relative must qualify as your dependent.
5. Your mother or father whom you can claim as your dependent. Your parent did not have to live with you.

Your married or unmarried child includes your grandchild, stepchild, or adopted child for the purpose of determining head of household status.

### Problem 4

Tom Brown got divorced during 1984 and did not remarry before the end of the tax year. Can he file a joint return?

### Problem 5

Mary White was divorced last year and did not live with her husband at any time during the year. She pays all costs for the home where she and her son live. Mary's son is single but she cannot claim him as a dependent. Can Mary file as head of household?

### Problem 6

Joan Green left her husband in 1981 and totally supports herself and her two minor children who live with her. What is Joan's correct filing status?

## Exemptions and Dependency Tests

Exemptions are reported in Step 3. Each exemption that you are allowed will reduce your taxable income by $1,000. You deduct this amount from your income to figure your taxable income. There are two kinds of exemptions: personal exemptions, which are exemptions that you may claim only for yourself or your spouse; and dependency exemptions, which are exemptions that you may claim only for a person who qualifies as your dependent. We will look at these two kinds of exemptions separately.

### Personal Exemptions

All personal exemptions are shown on lines 5a and 5b.

**Self.** As a taxpayer you are entitled to at least one personal exemption. Even if you qualify as the dependent of another taxpayer, such as your mother, you are entitled to claim your own personal exemption on your own return.

**Spouse.** If you are married, you may claim a personal exemption for your spouse on a joint return. If you are filing a separate return, you can claim an exemption for your spouse only if your spouse is not filing a return, had no income, and was not another taxpayer's dependent.

If your spouse died during the tax year and you did not remarry during the tax year, you may claim, on a joint return, the exemptions to which your spouse was entitled at the date of death. If you file a separate return, you may claim these exemptions only if your spouse had no income and was not another taxpayer's dependent.

**Age and blindness.** A taxpayer who is 65 or older on the last day of the tax year may claim a second personal exemption. This exemption is also allowed for a spouse. An individual is considered to be 65 on the day before his or her 65th birthday. For example, if a taxpayer's 65th birthday is on January 1, 1985, the taxpayer may claim the additional exemption for age on the 1984 return. A taxpayer or spouse who is blind on the last day of the year also is allowed an additional personal exemption.

### Dependency Exemptions

You are allowed an exemption for each person who qualifies as your dependent. You cannot claim the age and blindness exemptions for a dependent. Exemptions for dependents are claimed on lines 5c and 5d.

### Dependency Tests

For a person to qualify as your dependent, five tests must be met:

1. Support Test—You must provide more than half of the dependent's support during the tax year.
2. Gross Income Test—The dependent's gross income (income that would be included on a tax return if one were filed) must be less than $1,000. The test does not apply to your child who is either under age 19 or was a full-time student for at least 5 months during the tax year.
3. Member of Household or Relationship Test—the dependent must either be a member of your household all year or must be a relative related to you more closely than a cousin.
4. Citizenship Test—the dependent must be either a U.S. citizen, resident, or national, or a resident of Canada or Mexico for some part of the tax year.
5. Joint Return Test—you are not allowed an exemption for your dependent if he or she files a joint return (except for your married dependent if neither your dependent nor your dependent's spouse is required to file a return, but they file a joint return to claim a refund of withheld tax).

### Problem 7

How many exemptions will be entered on line 5e in the following situations?

a. A husband and wife, both under 65, file jointly and provided over half the support of the husband's mother. His mother lives in a nursing home, is a U.S. citizen, and received social security income.
b. Jane, a single taxpayer who is under 65, supported a neighbor's child.

   The child lived in her household for 3 months.
c. A husband and wife, both under 65, support their two children, ages 1 and 3.
d. A husband and wife file jointly. He is over 65, and she qualifies as blind.

### Total Income

Step 4 is the income section of Form 1040A.

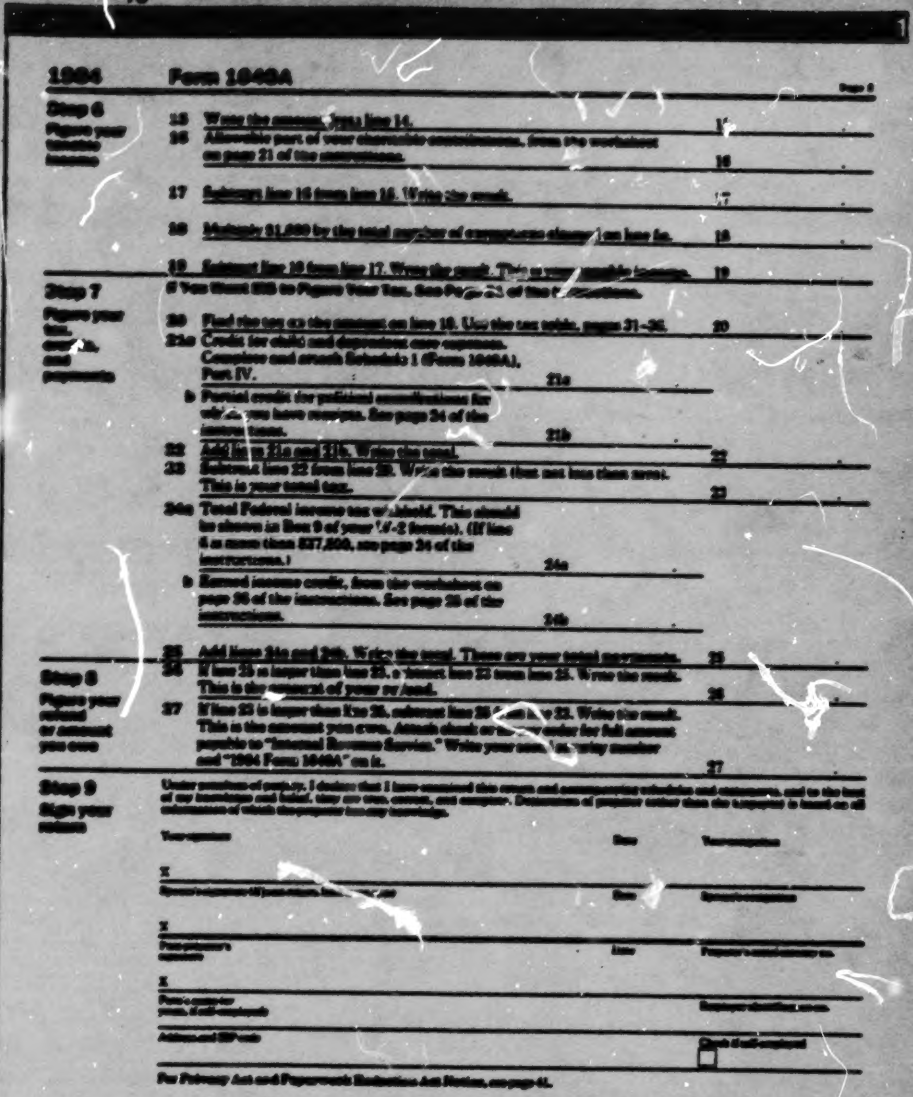
On line 6 enter the total of all wages and tips received. Take the figure for wages from box 10 of Form W–2.

On line 7 enter the total of all taxable interest income received. If your total interest is more than $400, you must list the names of the payers and the amount (from each Form 1099–INT) on Schedule 1, Part I of Form 1040A. Attach the schedule to your return.

Report the total of ordinary dividends on line 8a. If your total dividends are more than $400, list on Schedule 1, Part II, Form 1040A, the payers' names and the amounts. The amount of your exclusion on line 8b depends on your filing status. On a single or separate return you may subtract (exclude) up to $100 of ordinary dividends. On a joint return you may exclude up to $200 of ordinary dividends. Ordinary dividends are the most common dividends received. You may assume that dividends are ordinary dividends unless the paying corporation tells you otherwise on Form 1099–DIV.

On line 9a, put the total unemployment compensation you received. If you receive unemployment compensation or benefits, the state that paid you will send you Form 1099–G, *Statement for Recipients of Certain Government Payments*. In many cases unemployment benefits are nontaxable. But when your income is high enough, some or all of the benefits will be taxed. A worksheet in the Form 1040A instructions can help you figure if any of your benefits must be included in taxable income. The taxable amount is put on line 9b.

The total of all your income entered on lines 6 through 9b is put on line 10.



1984 Form 1040A Page 2

**Step 6** Figure your taxable income

15 Write the amount from line 14. 15

16 Allowable part of your charitable contributions, from the worksheet on page 21 of the instructions. 16

17 Subtract line 16 from line 15. Write the result. 17

18 Multiply $1,000 by the total number of exemptions claimed on line 5e. 18

19 Subtract line 18 from line 17. Write the result. This is your taxable income. 19

**Step 7** Figure your tax, credits, and payments

If You Want IRS to Figure Your Tax, See Page 23 of the Instructions.

20 Find the tax on the amount on line 19. Use the tax table, pages 31–36. 20

21a Credit for child and dependent care expenses. Complete and attach Schedule 1 (Form 1040A), Part IV. 21a

b Partial credit for political contributions for which you have receipts. See page 24 of the instructions. 21b

22 Add lines 21a and 21b. Write the total. 22

23 Subtract line 22 from line 20. Write the result (but not less than zero). This is your total tax. 23

24a Total Federal income tax withheld. This should be shown in Box 9 of your W-2 form(s). (If line 6 is more than $37,800, see page 24 of the instructions.) 24a

b Earned income credit, from the worksheet on page 26 of the instructions. See page 25 of the instructions. 24b

25 Add lines 24a and 24b. Write the total. These are your total payments. 25

**Step 8** Figure your refund or amount you owe

26 If line 25 is larger than line 23, subtract line 23 from line 25. Write the result. This is the amount of your refund. 26

27 If line 23 is larger than line 25, subtract line 25 from line 23. Write the result. This is the amount you owe. Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number and "1984 Form 1040A" on it. 27

**Step 9** Sign your return

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature Date Your occupation

X

Spouse's signature (if joint return, both must sign) Date Spouse's occupation

X

Paid preparer's signature Date Preparer's social security no.

X

Firm's name (or yours, if self-employed) Employer identification no.

Address and ZIP code Check if self-employed ☐

For Privacy Act and Paperwork Reduction Act Notice, see page 41.

Figure 2-13 (The instruction pages referred to on this form are *not* pages in this publication.)

## Adjusted Gross Income

Step 5 allows you to take two deductions from total income when you determine your adjusted gross income.

Line 11a is for the deduction for payments to an individual retirement arrangement (IRA). An IRA is a savings program that lets you set aside money for your retirement. The amount you put in an IRA is deductible from your total income. It is not taxed until you receive it. Line 11b is for IRA payments that you made between January 1, 1985, and April 15, 1985, and that you want to deduct on your 1984 return. This amount must be included in line 11a.

Line 12 is for the deduction for a married couple when both work. If you file a joint return and you and your spouse both have earned income, you may deduct up to 10% of the lower income. Subtract your IRA payments from your income before you figure this deduction. The maximum deduction allowed on line 12 is $3,000. A worksheet in the instructions for Form 1040A can help you figure your deduction.

Put the total of both deductions on line 13, and subtract it from total income on line 10. Line 14 is your adjusted gross income.

## Taxable Income

Step 6 (on page 2 of Form 1040A and shown in Figure 2–13) allows you to take two deductions from adjusted gross income to arrive at taxable income. Line 15 is your adjusted gross income from line 14 of page 1. Line 16 is the allowable part of your charitable contributions. This is the same deduction that is allowed on Form 1040EZ.

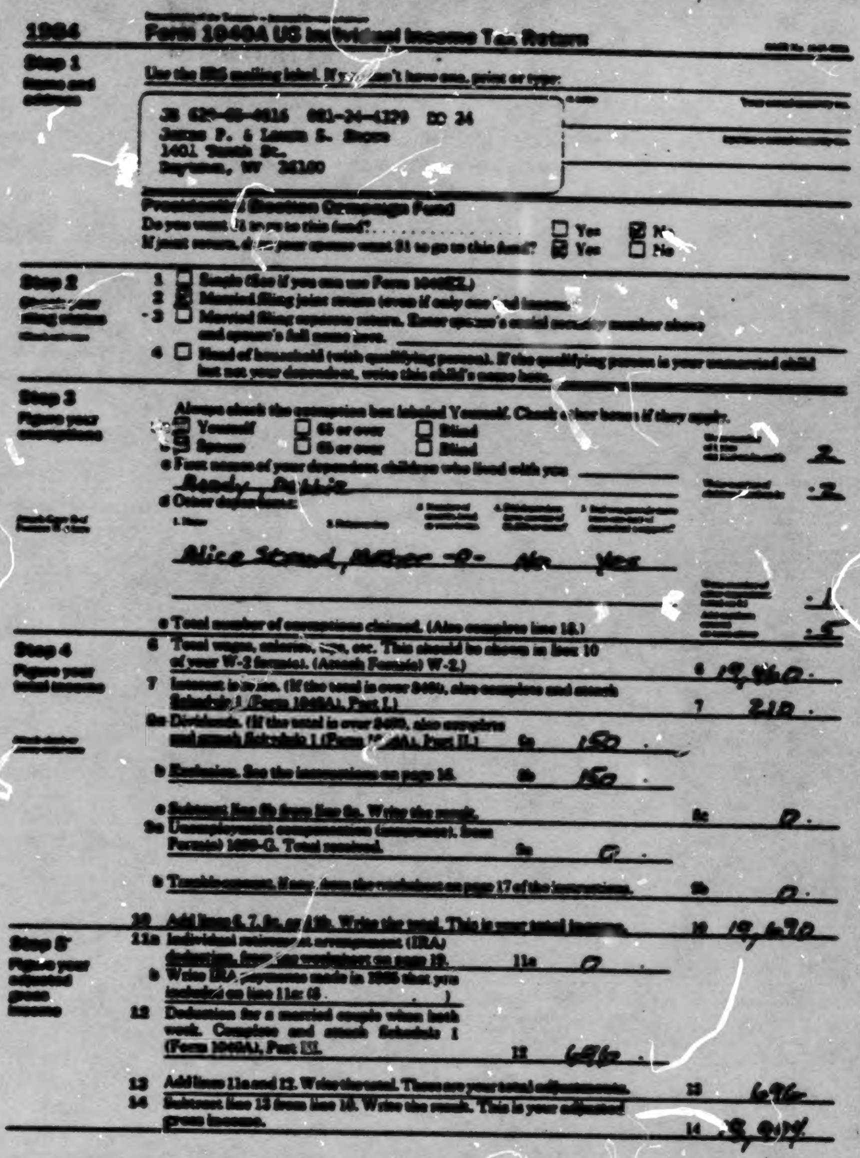
The other deduction is for the total number of exemptions you claimed on line 5e. Since you are allowed $1,000 for each exemption, multiply the number of exemptions by $1,000 and put this amount on line 18. Subtract this from line 17. Your taxable income is the amount on line 19.

## Tax, Credits, and Payments

In Step 7 you will figure your tax liability, credits, and total payments.

On line 20 enter your tax from the *Tax Table*. The amount depends on your taxable income (line 19) and your filing status. This is your tax before credits.

On Form 1040A two credits are allowed that can reduce your tax. The first credit is on line 21a, for unreimbursed child and dependent care expenses. The maximum credit allowed is $720 for the care of one person, or $1,440 for the care of two people or more. You must complete Schedule 1, Part IV of Form 1040A to determine if you qualify for this credit and to figure the amount. The second credit is for political contributions. On line 21b you may take a credit for half the amount you gave. The credit is limited to $50 ($100 on a joint return). Add both credits on line 22. Subtract line 22 from line 20 and put the difference on line 23. Do not enter less than zero. This amount is your total tax. Add to your total tax any advance earned income credit pay-



1984 Form 1040A US Individual Income Tax Return

Step 1 Name and address

Use the IRS mailing label. If you don't have one, print or type.

JR 629-00-4816 081-24-4329 DO 24
James P. & Laura S. [illegible]
1401 [illegible] St.
[illegible], W 26100

Presidential Election Campaign Fund
Do you want $1 to go to this fund? ☐ Yes ☒ No
If joint return, does your spouse want $1 to go to this fund? ☒ Yes ☐ No

Step 2 Check your filing status

1 ☐ Single (See if you can use Form 1040EZ.)
2 ☒ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here.
4 ☐ Head of household (with qualifying person). If the qualifying person is your unmarried child but not your dependent, write this child's name here.

Step 3 Figure your exemptions

Always check the exemption box labeled Yourself. Check other boxes if they apply.
5a ☒ Yourself ☐ 65 or over ☐ Blind
b ☒ Spouse ☐ 65 or over ☐ Blind — 2
c First names of your dependent children who lived with you: Randy Debbie — 2
d Other dependents:

| 1. Name | 2. Relationship | 3. Number of months lived in your home | 4. Did dependent have income of $1,000 or more? | 5. Did you provide more than one-half of dependent's support? |
|---|---|---|---|---|
| Alice Strand | Mother | -0- | No | Yes |

1

e Total number of exemptions claimed. (Also complete line 18.) — 5

Step 4 Figure your total income

| | | |
|---|---|---|
| 6 | Total wages, salaries, tips, etc. This should be shown in box 10 of your W-2 form(s). (Attach Form(s) W-2.) | 6 19,460. |
| 7 | Interest income. (If the total is over $400, also complete and attach Schedule 1 (Form 1040A), Part I.) | 7 210. |
| 8a | Dividends. (If the total is over $400, also complete and attach Schedule 1 (Form 1040A), Part II.) | 8a 150. |
| b | Exclusion. See the instructions on page 16. | 8b 150. |
| c | Subtract line 8b from line 8a. Write the result. | 8c 0. |
| 9a | Unemployment compensation (insurance). From Form(s) 1099-G. Total received. | 9a 0. |
| b | Taxable amount, if any, from the worksheet on page 17 of the instructions. | 9b 0. |
| 10 | Add lines 6, 7, 8c, and 9b. Write the total. This is your total income. | 10 19,670 |

Step 5 Figure your adjusted gross income

| | | |
|---|---|---|
| 11a | Individual retirement arrangement (IRA) deduction, from the worksheet on page 19. | 11a 0. |
| b | Write IRA payments made in 1985 that you included on line 11a. ($ . ) | |
| 12 | Deduction for a married couple when both work. Complete and attach Schedule 1 (Form 1040A), Part III. | 12 696. |
| 13 | Add lines 11a and 12. Write the total. These are your total adjustments. | 13 696 |
| 14 | Subtract line 13 from line 10. Write the result. This is your adjusted gross income. | 14 18,974 |

**Figure 2-14** (The instruction pages referred to on this form are not pages in this publication.)

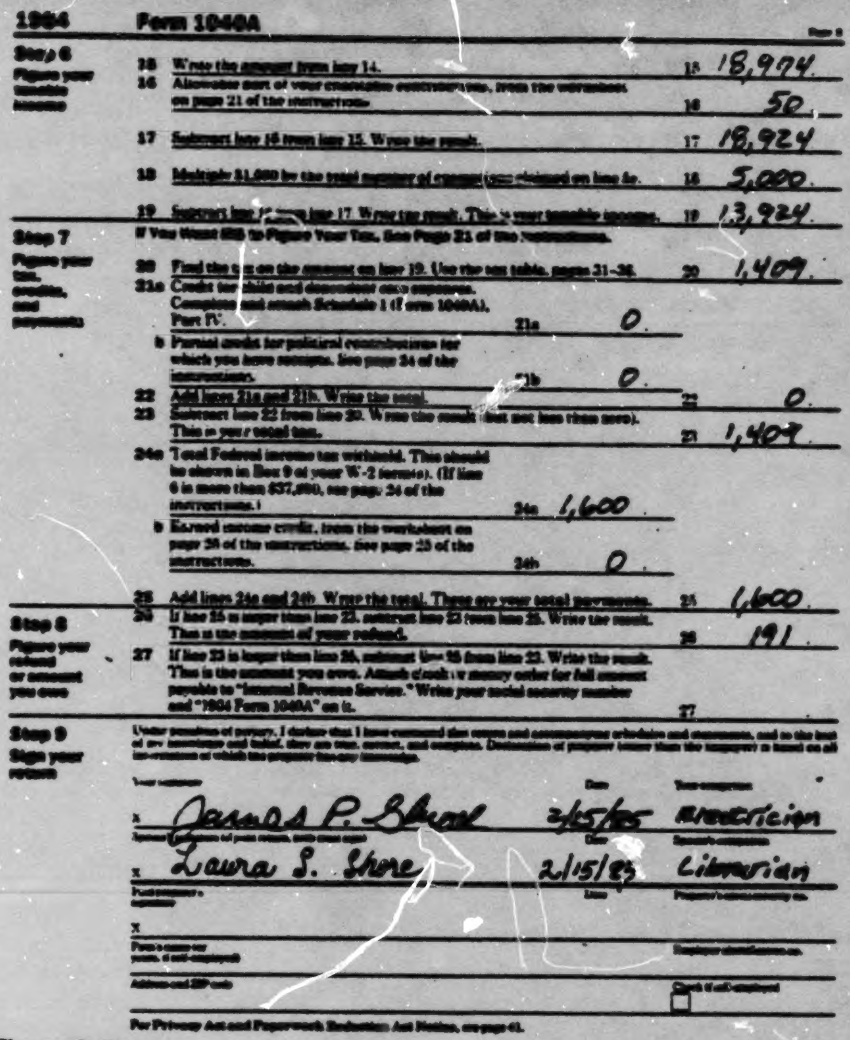
ments you received. In the space to the left of the line 23 entry space, write "AEIC" and show the amount of the payments. Any of these payments will be shown in box 7 of your Form W-2.

Two payment items are on Form 1040A. The first one, on line 24a, is for federal income tax withheld. This amount is shown in box 9 of your Form W-2, in box 3 of your Forms 1099-INT, and in box 4 of your Forms 1099-DIV.

The second payment item, on line 24b, is for earned income credit. This credit is available only to low-income workers who have a dependent child living at home. A worksheet is in the forms instructions to help you figure the amount. If you paid tax when Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return* was filed, write "Form 4868" and the amount paid next to line 25 of Form 1040A. Enter the total of this amount, line 24a and line 24b on line 25.

**Refund or Amount You Owe**

In Step 8 you will determine if you have a refund or owe tax. If line 25 is more than line 23, you have a refund. Subtract line 23 from line 25 and enter the amount on line 26. If line 23 is more than line 25, you owe additional tax. Subtract line 25 from line 23 and enter the amount on line 27. You should pay the amount you owe by check or money order, made payable to "Internal Revenue Service". On the check or money order be sure to write your so-



**1984** **Form 1040A** Page 2

**Step 6** Figure your taxable income

|  |  |  |  |  |
|---|---|---|---|---|
| 15 | Write the amount from line 14. |  | 15 | 18,974. |
| 16 | Allowable part of your charitable contributions, from the worksheet on page 21 of the instructions. |  | 16 | 50. |
| 17 | Subtract line 16 from line 15. Write the result. |  | 17 | 18,924 |
| 18 | Multiply $1,000 by the total number of exemptions claimed on line 6e. |  | 18 | 5,000. |
| 19 | Subtract line 18 from line 17. Write the result. This is your taxable income. |  | 19 | 13,924. |

**Step 7** Figure your tax, credits, and payments

If You Want IRS to Figure Your Tax, See Page 21 of the Instructions.

|  |  |  |  |  |
|---|---|---|---|---|
| 20 | Find the tax on the amount on line 19. Use the tax table, pages 31–36. |  | 20 | 1,409. |
| 21a | Credit for child and dependent care expenses. Complete and attach Schedule 1 (Form 1040A), Part IV. | 21a 0. |  |  |
| b | Partial credit for political contributions for which you have receipts. See page 24 of the instructions. | 21b 0. |  |  |
| 22 | Add lines 21a and 21b. Write the total. |  | 22 | 0. |
| 23 | Subtract line 22 from line 20. Write the result (but not less than zero). This is your total tax. |  | 23 | 1,409. |
| 24a | Total Federal income tax withheld. This should be shown in Box 9 of your W-2 form(s). (If line 6 is more than $37,800, see page 24 of the instructions.) | 24a 1,600. |  |  |
| b | Earned income credit, from the worksheet on page 26 of the instructions. See page 25 of the instructions. | 24b 0. |  |  |
| 25 | Add lines 24a and 24b. Write the total. These are your total payments. |  | 25 | 1,600. |

**Step 8** Figure your refund or amount you owe

|  |  |  |  |
|---|---|---|---|
| 26 | If line 25 is larger than line 23, subtract line 23 from line 25. Write the result. This is the amount of your refund. | 26 | 191. |
| 27 | If line 23 is larger than line 25, subtract line 25 from line 23. Write the result. This is the amount you owe. Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number and "1984 Form 1040A" on it. | 27 |  |

**Step 9** Sign your return

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature x James P. Shore — Date 2/15/85 — Your occupation Electrician

Spouse's signature (if joint return, both must sign) x Laura S. Shore — Date 2/15/85 — Spouse's occupation Librarian

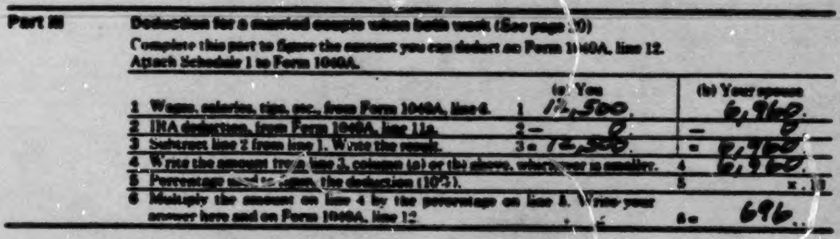
Paid preparer's signature x — Date — Preparer's social security no.

Firm's name (or yours, if self-employed) — Employer identification no.

Address and ZIP code — Check if self-employed ☐

For Privacy Act and Paperwork Reduction Act Notice, see page 41.

**Figure 2-15** (The instruction pages referred to on this form are *not* pages in this publication.)



**Part III** Deduction for a married couple when both work (See page 20)

Complete this part to figure the amount you can deduct on Form 1040A, line 12. Attach Schedule 1 to Form 1040A.

|  |  |  | (a) You | (b) Your spouse |
|---|---|---|---|---|
| 1 | Wages, salaries, tips, etc., from Form 1040A, line 6. | 1 | 12,500. | 6,960. |
| 2 | IRA deduction, from Form 1040A, line 11a. | 2 − | 0. | − 0. |
| 3 | Subtract line 2 from line 1. Write the result. | 3 = | 12,500. | = 6,960. |
| 4 | Write the amount from line 3, column (a) or (b) above, whichever is smaller. |  | 4 | 6,960. |
| 5 | Percentage used to figure the deduction (10%). |  | 5 | × .10 |
| 6 | Multiply the amount on line 4 by the percentage on line 5. Write your answer here and on Form 1040A, line 12. |  | 6 = | 696. |

**Figure 2-16** (The instruction pages referred to on this form are *not* pages in this publication.)

cial security number, address, and "1984, Form 1040A".

## Sign Your Return

Step 9 is the final step in completing your return. You must sign and date your return and write in your occupation. If you file a joint return, your spouse must also sign and date it and show his or her occupation. If you pay someone to prepare your return, that person must complete the requested information.

### Example

Jim Shore and his wife Laura must determine how many exemptions they are allowed to claim before they prepare their return. They have three children and also help to support Laura's mother Alice Strand.

Mrs. Strand, age 72, lives in her own apartment. In 1984 she received $2,000 in social security benefits and $200 of interest. The interest she received is her only gross income. Not all social security benefits are included in gross income, but they are considered in determining total support. The Shores provided $2,800 towards Mrs. Strand's support. The Shores can claim an exemption for her because they provide more than half of her support, she is related to them, and her gross income was under $1,000.

The Shores' oldest son, Randy, age 22, is a senior at State University. Randy earned $3,200 last year. His total support, including tuition, was $6,500. The Shores provided the rest of Randy's support. They may claim an exemption for Randy, since they provided more than half of his total support and he is a full-time student. Randy can also claim his own exemption on his return.

The Shores' second son, Gary, is 20 years old, worked in 1984 for the first 8 months, and started college in September. Gary earned $4,800. The Shores cannot claim an exemption for Gary because he is over 19, had gross income of $1,000 or more, and cannot be considered a full-time student. Gary will not be considered a full-time student until he has attended school full-time for some part of 5 calendar months during the year.

The Shores' youngest child, Debbie, age 14, lives at home. Her only income was from babysitting. The Shores can claim an exemption for her, since they provided more than half of her support.

Jim earned $12,500 as an electrician and had $1,100 income tax withheld from his pay. Laura earned $6,960 as a librarian and had $500 income tax withheld from her pay. The Shores received $210 of interest from savings bonds that they cashed, and Laura received $150 of dividends from stock that she owned. Look at Figures 2-14 and 2-15 to see how the Shores prepared their return.

**Step 1.** Jim and Laura checked the identification label on the Form 1040A package, which was sent to them in the mail. The information was correct. Then they checked the Presidential Election Campaign Fund boxes.

**Step 2.** They checked box 2 for married filing joint return.

**Step 3.** They checked box 5a, "Yourself," and box 5b, "Spouse," to claim exemptions for themselves. They wrote "2" on the line to the right. On line 5c, they wrote the first names of their dependent children, Randy and Debbie, and wrote "2" on the line to the right. On line 5d, they wrote the name of Laura's mother, completed the rest of the requested information, and put "1" on the line to the right. On line 5e, they totaled the number of their allowable exemptions, "5."

**Step 4.** On line 6, Jim and Laura put the total of their combined wages, $19,460 ($12,500 + $6,960). On line 7, they put their interest income, $210. On line 8a, they put Laura's dividends of $150. On line 8b, they put $150 as their exclusion. Since their dividends did not exceed the amount of their exclusion, they put "0" on line 8c. Since the Shores did not receive any unemployment compensation, they put "0" on line 9b. The Shores added lines 6 through 9b, and put the total, $19,670 on line 10.

**Step 5.** Neither Jim nor Laura put money into an individual retirement arrangement for 1984, so they entered "0" on line 11a.

The Shores are filing a joint return and both of them work. They can deduct 10% of the lower earned income. They completed Schedule 1, Part III of Form 1040A as shown in Figure 2–16. Laura's income is lower than Jim's. On line 12 they entered the amount from line 6 of Part III. Then they added lines 11a and 12 and put the total, $696, on line 13 as their total adjustments. They subtracted this amount from total income on line 10, and put the result, $18,974, on line 14 as their adjusted gross income.

**Step 6.** On line 15 the Shores carried over the amount of their adjusted gross income from line 14 of page 1. On line 16 the Shores can deduct part of their charitable contributions. They gave $200 to the United Fund in 1984. The deduction is limited to 25% of the first $300, so they entered $50 and subtracted this amount from their adjusted gross income. They put the result on line 17.

On line 18, they put the total for five exemptions, $5,000, which they subtracted from line 17. The result, $13,924, is their taxable income, which they put on line 19.

**Step 7.** The Shores' tax liability, taken from the *Tax Table* under "Married filing jointly," is

$1,400, which they put on line 20.

The Shores were not entitled to any tax credits, so they entered "0" on lines 21a, 21b, and 22. They did not receive any advance earned income credit payments. Therefore, their tax on line 20 is also entered on line 23.

Next, the Shores totaled the federal income tax withheld from both of their wages and put this amount, $1,600, on lines 24a and 25. They were not entitled to any earned income credit.

**Step 8.** The Shores' total payment was more than their total tax. They subtracted the tax from the payment and put the difference, $191, on line 26. This amount will be refunded to them.

**Step 9.** Jim and Laura both signed and dated their return and wrote in their occupations.

### Problem 8

Carl Wood and his wife Jane are each allowed one personal exemption. They must determine how many dependency exemptions they may claim. Their three children and Mrs. Wood's niece live with them.

The Woods' oldest daughter, Peggy, age 2[illegible], attended college full time until May 27. She worked full-time the rest of the year while attending evening school part-time. Peggy earned $5,000 in 1984. The total cost of her support for 1984 was $6,500, of which the Woods contributed $1,500.

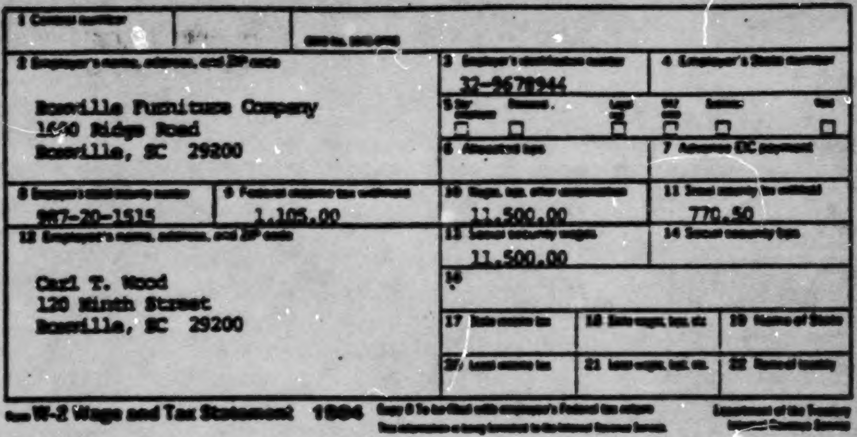
The Woods' younger daughter, Carol, age 19, graduated from high school in June. Carol started working in September and earned $2,200 in 1984. The total cost of her support was $4,[illegible], of which the Woods contributed $2,300.

The Woods' son, Matthew, age 17, attended high school all year and also earned $1,500. The total cost of his support was $4,200.

Mrs. Wood's niece, Linda Green, age 12, received $2,000 as a gift (nontaxable). The total cost of her support was $4,400. The Woods contributed the rest of her support. Linda is a U.S. citizen.

Carl Wood is a truck driver and Jane is a checkout clerk. Their Forms W-2 are shown in Figures 2-17 and 2-18. In addition to their wages, they had $250 of interest credited to their joint savings account. They did not receive any pensions or unemployment compensation.

Carl and Jane did not put any money into an IRA for 1984. They gave $400 to their church last year. The Woods did not qualify for any tax credits or the earned income credit. On a Form 1040A, prepare a joint return for Carl and Jane Wood. They each want $1 of their tax liability to go into the Presidential Election Campaign Fund.



1 Control number

2 Employer's name, address, and ZIP code

Boxville Furniture Company
1600 Ridge Road
Boxville, SC 29200

3 Employer's identification number: 32-9678944

4 Employer's State number

5 ☐ ☐ ☐ ☐ ☐ ☐

6 Allocated tips

7 Advance EIC payment

8 Employee's social security number: 987-20-1515

9 Federal income tax withheld: 1,105.00

10 Wages, tips, other compensation: 11,500.00

11 Social security tax withheld: 770.50

12 Employee's name, address, and ZIP code

Carl T. Wood
120 Ninth Street
Boxville, SC 29200

13 Social security wages: 11,500.00

14 Social security tips

16

17 State income tax

18 State wages, tips, etc.

19 Name of State

20 Local income tax

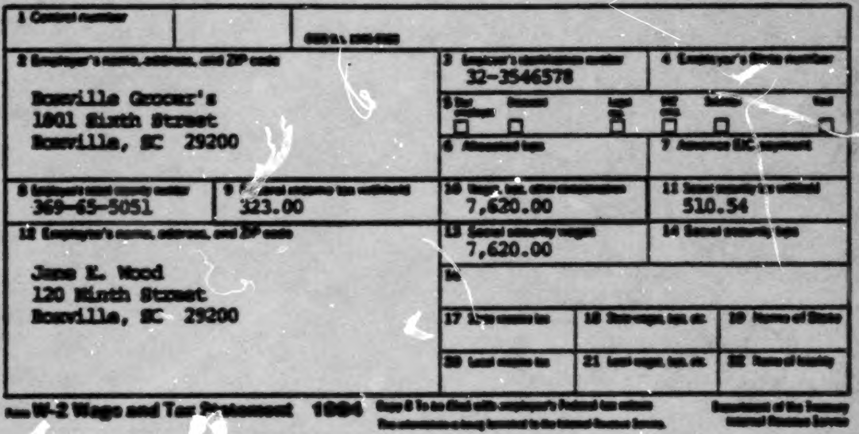
21 Local wages, tips, etc.

22 Name of locality

Form W-2 Wage and Tax Statement 1984

Department of the Treasury
Internal Revenue Service

Figure 2-17



1 Control number

2 Employer's name, address, and ZIP code

Boxville Grocer's
1001 Sixth Street
Boxville, SC 29200

3 Employer's identification number: 32-3546578

4 Employer's State number

5 ☐ ☐ ☐ ☐ ☐ ☐

6 Allocated tips

7 Advance EIC payment

8 Employee's social security number: 369-65-5051

9 Federal income tax withheld: 323.00

10 Wages, tips, other compensation: 7,620.00

11 Social security tax withheld: 510.54

12 Employee's name, address, and ZIP code

Jane E. Wood
120 Ninth Street
Boxville, SC 29200

13 Social security wages: 7,620.00

14 Social security tips

16

17 State income tax

18 State wages, tips, etc.

19 Name of State

20 Local income tax

21 Local wages, tips, etc.

22 Name of locality

Form W-2 Wage and Tax Statement 1984

Department of the Treasury
Internal Revenue Service

Figure 2-18

### Rounding Off Dollar Amounts

A good way to limit mathematical or transcribing errors is to round off all money items on returns to whole dollars. If you decide to round off, you must do so with all entries on the return and schedules you prepare. This means you drop amounts less than 50 cents, and increase amounts from 50 to 99 cents to the next dollar.

### Summary Problems

9. John Stone is single and over 65. His mother has lived with him for several years. He provides 70% of her support. She receives a taxable pension of $3,600. She is widowed and a U.S. citizen.

Mr. Stone's filing status is ________

He may claim _____ exemption(s).

10. Mary Peters is under 65 and married, but has lived apart from her husband for 2 years. She is the sole support of her son David, age 4, who lives with her.

Mrs. Peters' filing status is ________

She may claim _____ exemption(s).

Based on the information given in the following problems, prepare a Form 1040A for each of the taxpayers. In all cases when there is a tax liability, the taxpayers wish to contribute to the Presidential Election Campaign Fund.

22

11. Jennifer S. Den (679-65-0002)
100 Maple Street
Goodville, Texas 77200
Occupation: Student/Clerk
Single, no dependents

| | |
|---|---|
| Form W-2 | |
| Wages | $5,800.00 |
| Withholding | $431.00 |
| Interest | $25.00 |
| Qualifying dividends | $80.00 |
| Contributions | $80.00 |

---

12. Daniel C. Green (555-66-5252)
1050 Oak Street
Boontown, Kansas 67100
Occupation: Deliveryman
Single, no dependents

| | |
|---|---|
| Form W-2 | |
| Wages | $9,622.00 |
| Withholding | $1,186.60 |
| Interest | $10.00 |
| Qualifying Dividends | $147.00 |

---

13. John T. Dash (987-24-1347) and
his wife Maureen B. Dash
(981-65-0102) 2010 First Street
Elmville, California 90050
Each allowed one exemption

| | |
|---|---|
| Contributions to a political candidate, | $70 |
| Form W-2 for John Dash, a salesman | |
| Wages | $10,080 |
| Withholding | $1,000 |
| Interest | $80 |
| Form W-2 for Maureen Dash, a part-time telephone operator | |
| Wages | $4,825 |
| Withholding | $380 |
| Interest | $25 |

---

14. Walter T. Hall (368-65-8888) and
his wife Frances F. Hall (987-40-4444)
1411 37th Street
Oakton, Oregon 97200
Dependents:

The Halls' older son, Walter, Jr., age 20, lives with his parents. He did not attend school. He was unemployed 9 months and earned only $1,200 last year. His parents provided more than half of his total support. The Halls' younger son, Russell, age 16, a high school student, earned $900 last year. Betty Hall, Walter's mother, lived in her own apartment. She received $2,400 from social security and $200 of interest. The Halls provided $2,800 towards her support.

| | |
|---|---|
| Form W-2 for Walter, a bus driver | |
| Wages | $11,870 |
| Withholding | $1,340 |
| Form W-2 for Frances, a part-time bank teller | |
| Wages | $5,340 |
| Withholding | $165 |
| Interest | $20 |
| Qualifying dividends | $30 |

# MODULE 2

## Part III—Form 1040

### Objectives

At the end of this module you will be able to:

1. Know when to prepare a Form 1040
2. Name the types of itemized deductions

### Introduction

In Part II of this module you acquired the skills to prepare a Form 1040A. This part of the module will introduce you to preparing Form 1040 and Schedule A. Form 1040 is designed for individuals who cannot use Form 1040EZ or 1040A because of their filing status, the types of income they have, or deductions they want to claim. Very few high school students will have these types of items to report. As you read this part of the module, notice the similarities between Form 1040 and Form 1040A.

## Preparing Form 1040

The top part of Form 1040 identifies you. Look at Figure 2–19. Everything you learned about completing Step 1 of Form 1040A applies to Form 1040 as well, and you also write your occupation here.

### Filing Status

The filing status section of Form 1040 is the same as on Form 1040A, except that there is one additional status—qualifying widow(er) with dependent child. Again look at Figure 2–19. All the rules you learned regarding the first four filing statuses still apply. For you to file as qualifying widow(er) for 1984, you must meet the following requirements:

1. Your spouse must have died during 1982 or 1983.
2. You must not have remarried before the end of 1984.
3. You were entitled to file a joint return for the year of your spouse's death.
4. You must have a child, adopted child, or stepchild who qualifies as your dependent.
5. You must have furnished over half the cost of keeping up your home that is also your child's principal home all year, except for temporary absences.

The advantage of this filing status over Single or Head of Household status is that a qualifying widow(er) uses the rates for taxpayers who are married filing jointly.

### Exemptions

The *Exemptions* section of Form 1040 contains the same items that are on Form 1040A. All the rules you learned about exemptions in Part II of this module apply to Form 1040.

### Income

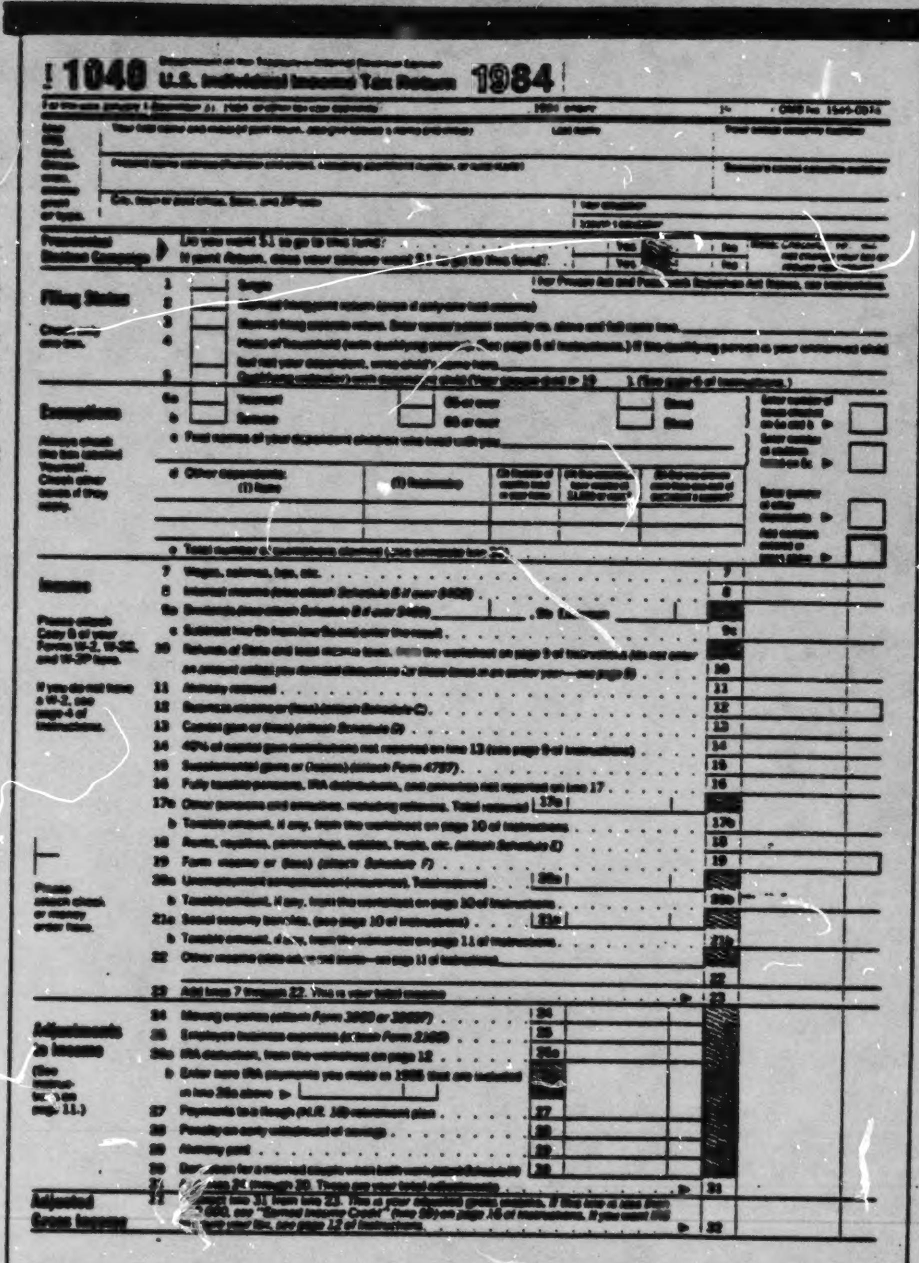
The *Income* section of Form 1040 goes from line 7 through line 23. Look at Figure 2–19 to see the kinds of income that are listed. Notice that the lines for wages, interest, dividends, and unemployment compensation resemble the income lines of Form 1040A. In addition, 11 other kinds of income are identified in the *Income* section of Form 1040. Go back to Figure 2–19 and see how many of these other types of income you are familiar with. Beginning in 1984, some social security benefits may be taxable. Line 21 has been added to include social security benefits in income. You may have noticed that line 22 is used to report income that cannot be reported in lines 7 through 21. For example, lottery winnings will be shown here.

### Adjustments to Income

Certain deductions or expenses are allowed even if you do not itemize deductions on Schedule A. These deductions are on lines 24 through 31 of Form 1040. Look back at Figure 2–19. Most of these expenses are employment related.

Does line 30 in Figure 2–19 look familiar? It's the same deduction as on line 12 of Form 1040A for a married couple when both work. Schedule W must be completed for this deduction and attached to Form 1040. Look at Schedule W in Figure 2–20, on the next page.

Total the adjustments and enter the result on line 31. Subtract this figure from total income to arrive at adjusted gross income (AGI) on lines 32 and 33. If you look back at Figure 2–19 you will see that line 32, Form 1040, corresponds to line 14, Form 1040A, and that line 33 Form 1040, corresponds to line 15, Form 1040A. It should be more apparent to you as we go through this



1040 U.S. Individual Income Tax Return 1984

Figure 2-19 (The instruction pages referred to on this form are *not* pages in this publication.)

part of the module that the Form 1040 is an expanded version of the 1040A return.

## Itemized Deductions

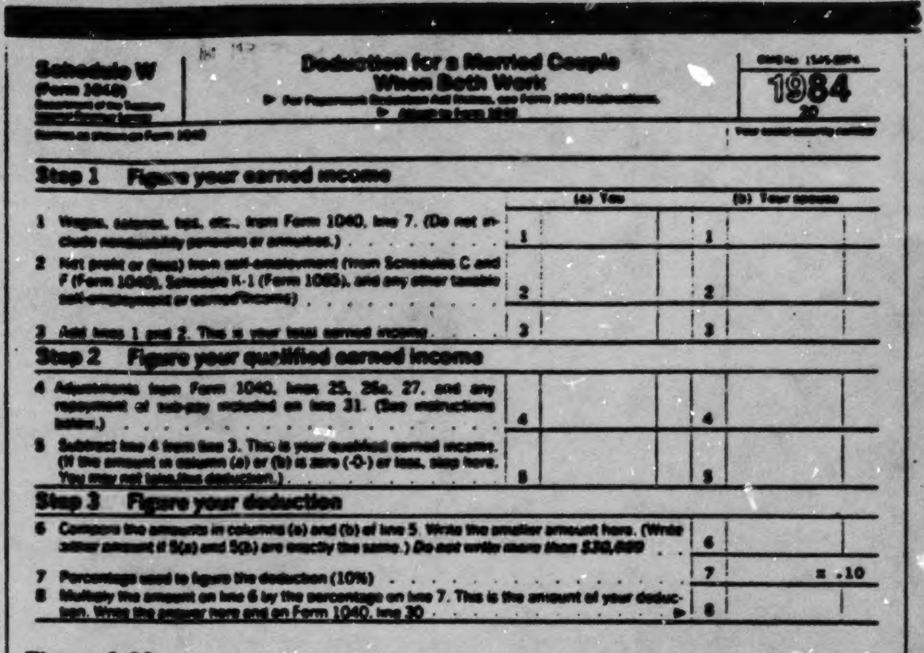
Now is an appropriate time to discuss itemized deductions. Look at the Schedule A in *Figure* 2–21, on page 20. The itemized deductions include medical and dental expenses, taxes, interest expense, contributions, casualty and theft losses and miscellaneous deductions. Remember that these expenses are deductible in the year paid, not the year the expense was incurred.

The Form 1040 tax package contains detailed instructions for claiming itemized deductions. Look at Figure 2–21 and find in the left margin of Schedule A what pages in the tax package give the related instructions.

## Summary of Itemized Deductions

The last section of the Schedule A is the *Summary of Itemized Deductions.* In this section, all of the separate sections on the Schedule A are totaled on line 24. This total is then reduced by the zero bracket amount (ZBA) on line 25. This yields the excess itemized deductions on line 26, which is the amount you carry over to Form 1040 and use to reduce adjusted gross income.

The ZBA is a set amount that is not subject to tax. It is currently $3,400 for married couples filing jointly and quali-



**Schedule W** (Form 1040)

**Deduction for a Married Couple When Both Work**

▶ For Paperwork Reduction Act Notice, see Form 1040 Instructions.

▶ Attach to Form 1040

**1984**

20

Name(s) as shown on Form 1040 | Your social security number

**Step 1 Figure your earned income**

| | | (a) You | | (b) Your spouse |
|---|---|---|---|---|
| 1 Wages, salaries, tips, etc., from Form 1040, line 7. (Do not include nontaxable pensions or annuities.) | 1 | | 1 | |
| 2 Net profit or (loss) from self-employment (from Schedules C and F (Form 1040), Schedule K-1 (Form 1065), and any other taxable self-employment or earned income) | 2 | | 2 | |
| 3 Add lines 1 and 2. This is your total earned income | 3 | | 3 | |

**Step 2 Figure your qualified earned income**

| | | | | |
|---|---|---|---|---|
| 4 Adjustments from Form 1040, lines 25, 26a, 27, and any repayment of sub-pay included on line 31. (See instructions below.) | 4 | | 4 | |
| 5 Subtract line 4 from line 3. This is your qualified earned income. (If the amount in column (a) or (b) is zero (-0-) or less, stop here. You may not take the deduction.) | 5 | | 5 | |

**Step 3 Figure your deduction**

| | | |
|---|---|---|
| 6 Compare the amounts in columns (a) and (b) of line 5. Write the smaller amount here. (Write either amount if 5(a) and 5(b) are exactly the same.) *Do not write more than $30,000* | 6 | |
| 7 Percentage used to figure the deduction (10%) | 7 | × .10 |
| 8 Multiply the amount on line 6 by the percentage on line 7. This is the amount of your deduction. Write the answer here and on Form 1040, line 30 ▶ | 8 | |

Figure 2-20

fying widow(er)s, $1,700 for married persons filing separately, and $2,300 for persons filing as single or head of household.

The *Tax Table* already includes the ZBA. Therefore, taxpayers who itemize deductions must subtract the ZBA from their total itemized deductions. The result is excess itemized deductions (the amount by which itemized deductions exceed the ZBA).

### Who May Itemize

Unless you are in one of the special categories and must itemize, you may itemize only if your expenses are more than your ZBA. Some of these special categories include:

If you can be claimed as a dependent on your parents' return and you have unearned income of $1,000 or more, you generally must itemize (however, you do not have to itemize if you have earned income of $2,300 or more and are single, or have earned income of $1,700 or more and are married filing separately).

If you are filing separately and your spouse itemizes, you must also itemize.

## Form 1040, Page 2

Now that we have reviewed Schedule A, let's return to Form 1040. Look at Figure 2-22, which shows page 2 of Form 1040. Line 33 is the adjusted gross income from line 32 of page 1. The excess itemized deductions from Schedule A go on line 34a. The alternate 25% of charitable contributions goes on line 34b. Subtract line 34a or b from line 33 and enter the result on line 35. Use the alternate deduction for charitable contributions when you do not have enough itemized deductions to exceed the ZBA, and you make charitable contributions. If you cannot itemize or take a charitable contributions deduction, line 34 will show zero, and lines 33 and 35 will be the same.

The rest of the computation is similar to what you did on Form 1040A.

### Credits

Credits reduce your tax, dollar-for-dollar. They differ from deductions, which reduce income before it is taxed. You may take credits whether you itemize deductions or not. Look at Figure 2-22. The credits section is located on lines 41 through 49.

One of the most widely used credits is for child and dependent care expenses. If you pay to have your children or disabled dependents looked after so you can work, you may claim this credit. The credit is figured on Form 2441, *Credit for Child and Dependent Care Expenses*, and entered on line 41.

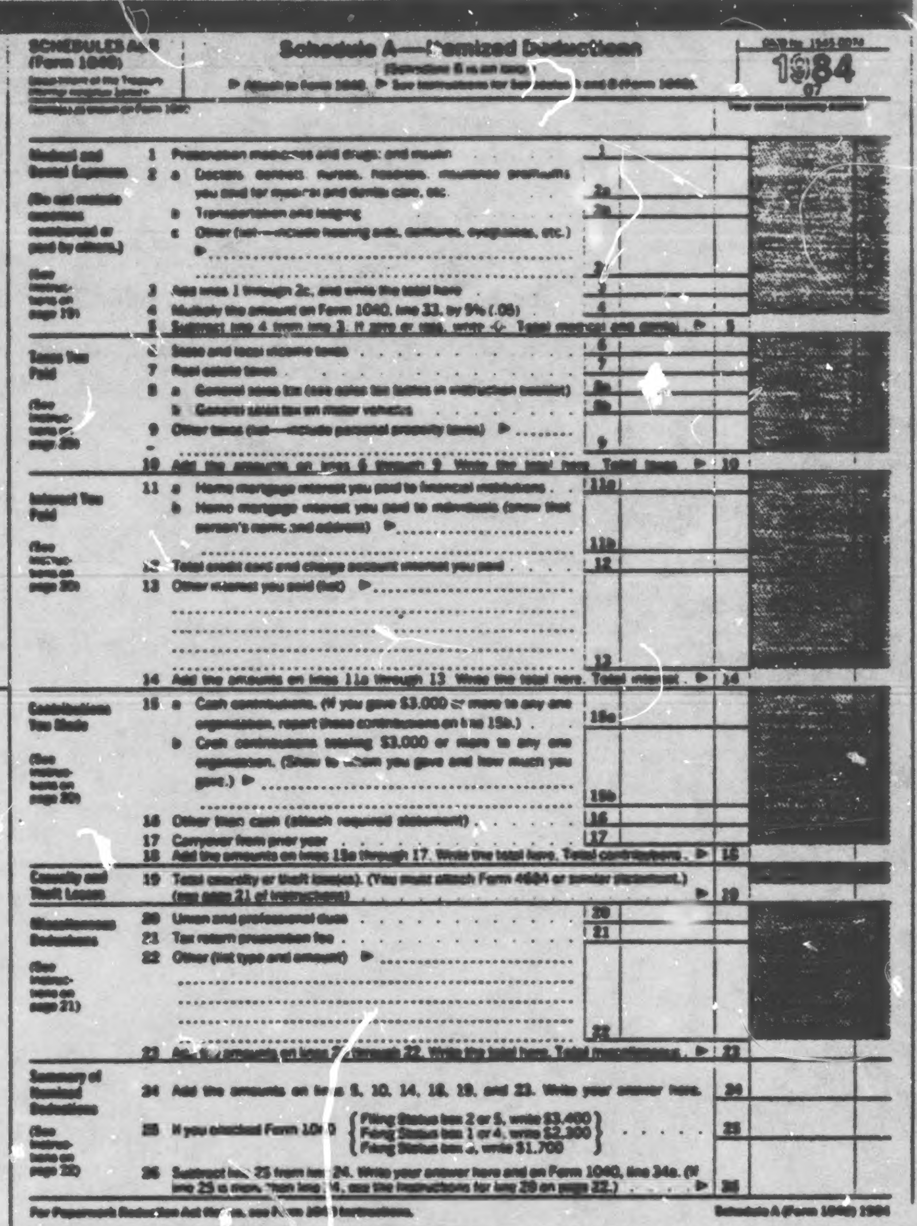
### Other Taxes

Lines 51 through 55 involve other taxes for which you may be liable. Adding lines 50 through 55 gives the total tax liability on line 56.

### Payments

The *Payments* section of Form 1040 is on lines 57 through 64. On line 57 you would enter your total withheld federal income tax from all Forms W-2. For most of you, your employer will withhold the tax from your pay. But some of you receive income that is not subject to withholding, such as self-employment income, interest, dividends, and

25



**SCHEDULES A&B (Form 1040)**
Department of the Treasury
Internal Revenue Service
Name(s) as shown on Form 1040

## Schedule A—Itemized Deductions

(Schedule B is on back)
▶ Attach to Form 1040. ▶ See Instructions for Schedules A and B (Form 1040).

OMB No. 1545-0074
1984
07

Your social security number

| | | | |
|---|---|---|---|
| **Medical and Dental Expenses** (Do not include expenses reimbursed or paid by others.) (See Instructions on page 19) | 1 | Prescription medicines and drugs; and insulin | 1 |
| | 2 a | Doctors, dentists, nurses, hospitals, insurance premiums you paid for medical and dental care, etc. | 2a |
| | b | Transportation and lodging | 2b |
| | c | Other (list—include hearing aids, dentures, eyeglasses, etc.) ▶ | 2c |
| | 3 | Add lines 1 through 2c, and write the total here | 3 |
| | 4 | Multiply the amount on Form 1040, line 33, by 5% (.05) | 4 |
| | 5 | Subtract line 4 from line 3. If zero or less, write -0-. Total medical and dental ▶ | 5 |
| **Taxes You Paid** (See Instructions on page 20) | 6 | State and local income taxes | 6 |
| | 7 | Real estate taxes | 7 |
| | 8 a | General sales tax (see sales tax tables in instruction booklet) | 8a |
| | b | General sales tax on motor vehicles | 8b |
| | 9 | Other taxes (list—include personal property taxes) ▶ | 9 |
| | 10 | Add the amounts on lines 6 through 9. Write the total here. Total taxes ▶ | 10 |
| **Interest You Paid** (See Instructions on page 20) | 11 a | Home mortgage interest you paid to financial institutions | 11a |
| | b | Home mortgage interest you paid to individuals (show that person's name and address) ▶ | 11b |
| | 12 | Total credit card and charge account interest you paid | 12 |
| | 13 | Other interest you paid (list) ▶ | 13 |
| | 14 | Add the amounts on lines 11a through 13. Write the total here. Total interest ▶ | 14 |
| **Contributions You Made** (See Instructions on page 20) | 15 a | Cash contributions. (If you gave $3,000 or more to any one organization, report those contributions on line 15b.) | 15a |
| | b | Cash contributions totaling $3,000 or more to any one organization. (Show to whom you gave and how much you gave.) ▶ | 15b |
| | 16 | Other than cash (attach required statement) | 16 |
| | 17 | Carryover from prior year | 17 |
| | 18 | Add the amounts on lines 15a through 17. Write the total here. Total contributions ▶ | 18 |
| **Casualty and Theft Losses** | 19 | Total casualty or theft loss(es). (You must attach Form 4684 or similar statement.) (see page 21 of Instructions) ▶ | 19 |
| **Miscellaneous Deductions** (See Instructions on page 21) | 20 | Union and professional dues | 20 |
| | 21 | Tax return preparation fee | 21 |
| | 22 | Other (list type and amount) ▶ | 22 |
| | 23 | Add the amounts on lines 20 through 22. Write the total here. Total miscellaneous ▶ | 23 |
| **Summary of Itemized Deductions** (See Instructions on page 22) | 24 | Add the amounts on lines 5, 10, 14, 18, 19, and 23. Write your answer here. | 24 |
| | 25 | If you checked Form 1040 { Filing Status box 2 or 5, write $3,400 / Filing Status box 1 or 4, write $2,300 / Filing Status box 3, write $1,700 } | 25 |
| | 26 | Subtract line 25 from line 24. Write your answer here and on Form 1040, line 34a. (If line 25 is more than line 24, see the Instructions for line 26 on page 22.) ▶ | 26 |

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule A (Form 1040) 1984

**Figure 2-21** (The instruction pages referred to on this form are not pages in this publication.)

prizes. This income is also subject to the pay-as-you-go rules, and you may have to pay estimated taxes.

Usually, you will not have to pay estimated taxes if your 1985 income tax return will show a refund, or if your tax due will be less than $500, or if you file a new Form W-4 with your employer to have additional tax withheld from your pay to cover the tax.

Many taxpayers pay estimated taxes, but we will mention only the requirements that will concern you. You must pay estimated taxes if:

1. You are required to file an income tax return; and
2. Your income includes more than $500 of income not subject to withholding; and
3. Your estimated tax is $500 or more.

To determine if you must pay estimated taxes, you should obtain Form 1040–ES, *Estimated Tax for Individuals*. The form contains instructions, a worksheet, and a payment voucher to accompany the estimated tax payment, if one is due.

### Refund or Amount You Owe

If the total payments on line 64 are more than the tax on line 56, you overpaid your tax. On line 65 enter the amount by which the line64 exceeds line 56. This overpayment can be refunded, used as an estimated payment for next year's tax, or apportioned between the two. On line 66 enter the amount to be refunded. Enter on line 67 any amount to be applied to your 1985 estimated tax.

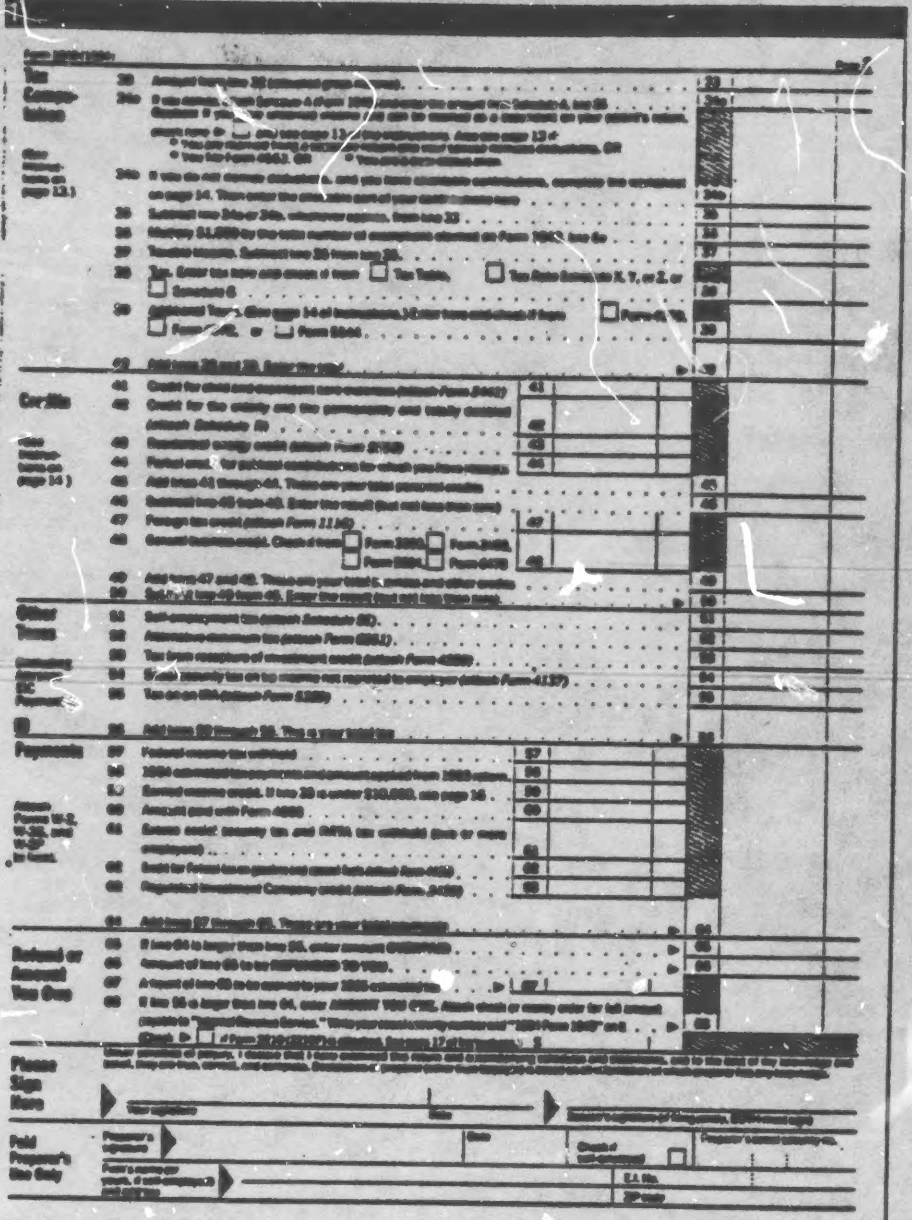


Figure 2-22 (The instruction pages referred to on this form are not pages in this publication.)

If line 64 is less than line 56, the difference is the additional tax you owe. You would enter this amount on line 68 and pay it with your return, as you would with Form 1040A.

You must sign and date your return. If you file a joint return, your spouse must also sign.

## Amended Return

After you have filed your return, if you discover that you did not report some income, that you claimed deductions or credits by mistake, or are entitled to some you did not claim, you can correct the error. To make the correction, prepare Form 1040X, *Amended U.S. Individual Income Tax Return*, and send it to the address shown on the instructions for that form.

An amended return must be filed within the later of:

1. 3 years from the date you filed your original return; or
2. 2 years from the date you paid the tax.

A return filed early is considered to have been filed on the due date.

## Conclusion

As you have seen, Form 1040 is an expansion of the shorter Forms 1040EZ and 1040A. Although Form 1040 contains more lines than the other two forms, you can see that many of these lines will not apply to all taxpayers, and are left blank.

# MODULE 3

## History of Taxation*

### Objectives

At the end of this module, you will be able to discuss:

1. The federal income tax as a constitutional issue
2. The changing needs for federal revenue since the American Revolution
3. The use of income tax as the main source of federal revenue.

### Introduction

For about two-thirds of our nation's history, the federal government did not have the specific constitutional power to tax directly individual incomes. An income tax was imposed briefly during the Civil War. It was used again in the 1890s, but the Supreme Court ruled it unconstitutional. In 1913, states ratified the 16th amendment granting Congress the power to tax personal income.

Until the late 1960s taxes were raised mainly to fight wars. For most of the 1800s, the federal government relied on tariffs and excise taxes on liquor and tobacco for its revenue. With the Great Depression in the 1930s, the government began income and social security programs, but these cost comparatively little until the 1960s.

The federal income tax began as a tax on the wealthy. Just prior to the 16th amendment, much of the government's revenue was raised through import tariffs. These tariffs benefited American manufacturers by keeping prices high for foreign-made goods. Pressure for a federal income tax arose as a popular cause. It was not until World War II that the income tax was expanded to cover most American families. Today, the personal income tax supplies more than half of all federal revenue.

In this module, we describe the history of federal taxation from colonial times to the present day. You will read about the income tax as a constitutional issue and how it became the federal government's main source of revenue.

### Colonial Times

When our Constitution was ratified in 1789, most of the population lived on the east coast. Pittsburgh, Pennsylvania was considered a remote outpost. Ninety percent of the families were farmers and one-sixth of the population were slaves.

Before the Revolutionary War, the colonial governments had only a limited need for revenue. The taxes imposed differed among the colonies. The southern colonies taxed imports and exports. The middle colonies imposed, at times, a property tax and a "head" tax. A head tax, also called a poll tax, was levied on each adult male. The New England colonies raised revenue through general real estate taxes, excise taxes, and taxes on the basis of occupation. Even then, social purposes influenced what was taxed. For example, Pennsylvania imposed an excise tax on liquor sales partly "to restrain persons in low circumstances from an immoderate use thereof." Property owners supported the tax so as to keep their property tax rates low.

England's need for revenue to pay for wars against France led to a series of taxes on the American colonies. In 1765, the English Parliament passed the Stamp Act, which was the first tax imposed directly on the American colonies, and later Parliament imposed a tax on tea. Even though colonists were forced to pay these taxes, they were not represented in the Parliament in England. This led to the rallying cry of the American revolution that "taxation without representation is tyranny."

### The Post-Revolutionary Era

The Articles of Confederation, adopted in 1781, reflected the American fear of a strong central government. The national government had few responsibilities and no nationwide tax system. For its revenue, the new government relied on donations from the states. Under the Articles, each state was a sovereign entity and could tax as it pleased. Traders from other countries found 13 sets of import tariffs. The states also imposed taxes on goods imported from other states.

When the Constitution was adopted in 1789, the federal government was granted the authority to raise taxes. Under the Constitution, Congress had the power to "...lay and collect taxes, duties, imposts, and excises, pay the debts and provide for the common defense and general welfare of the United States...." However, the government could not impose direct taxes, except in proportion to each state's population. Collecting the revenue on these taxes was the responsibility of state governments.

To pay for the debts of the revolutionary war, Congress passed excise taxes on distilled spirits, tobacco and

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*This account is based in part on a book by Gerald Carson, entitled, *The Golden Egg: The Personal Income Tax—Where It Came From, How It Grew* (Boston: Houghton-Mifflin, 1977.)

snuff, refined sugar, carriages, property sold at auctions, and various legal documents.

But the new taxes were not popular with many segments of the population. In 1794, a group of farmers in southwestern Pennsylvania physically opposed the tax on whiskey. President George Washington had to send federal troops to the area to suppress the Whiskey Rebellion. This action showed that the federal government was determined to enforce its revenue laws.

During the confrontation with France in the late 1790s, the federal government imposed the first direct tax on houses, land, slaves, and on estates. This direct tax on estates was the first federal estate tax.

When Thomas Jefferson was elected President in 1802, these taxes were abolished. For the next 10 years, there were no internal revenue taxes.

To raise money for the War of 1812 Congress imposed excise taxes and raised money by issuing Treasury notes. Congress also imposed an extra tax on imported rum to discourage its consumption. In 1817, Congress repealed these taxes. For the next 44 years, the government did not collect internal revenue. High customs duties and the sale of public land were the main source of revenue.

## The Civil War

Many people on both sides of the Civil War felt that it would be a short-lived dispute. To pay for the war, Congress passed the Revenue Act of 1861 which brought back excise taxes and imposed a tax on personal incomes. The income tax was levied at 3% on all incomes higher than $800 a year. This tax on personal income was a new direction for a federal tax system that was chiefly based on excise taxes and customs duties. The inadequacies of the income tax were quickly acknowledged by Congress, and it never was collected.

By the spring of 1862, however, it was clear that the War Between the States would be long and drawn out. The Union's debt was increasing by $2 million a day as war costs continued to grow. On July 1, 1862, Congress passed new excise taxes on such objects as playing cards, gunpowder, feathers, telegrams, iron, leather, pianos, yachts, billiard tables, drugs, patent medicines, and whiskey. Many legal documents were taxed, and license fees were collected for almost all trades and professions.

The 1862 law kept the personal income tax but added several changes, which are important features of our current federal income tax system. Personal income taxes were based on the taxpayers ability to pay. Incomes between $800 and $10,000 were taxed at

3%, while higher incomes were taxed at 5%. Taxpayers could take a standard deduction of $600. Deductions were permitted for rental housing, repairs, losses, and other taxes paid. In addition, taxes were "withheld at the source" by employers.

The need for federal revenue sharply declined after the Civil War, and most taxes were repealed. By 1868, the major source of government revenue was from taxes on liquor and tobacco. From 1868 to 1913, nearly 90% of all internal revenue was collected from these sources. By 1872, the income tax was abolished.

### The 16th Amendment

In 1894, a tax was passed on personal income. It was to be effective from January 1, 1895, through January 1, 1900. Unlike the earlier income tax, which used the progressive rate system, this tax used a flat rate system. This flat rate was 2% on all taxable income.

In 1895, the Supreme Court ruled that the income tax was unconstitutional, since it was not apportioned according to the population in each state. However, a number of events and policies kept the income tax issue alive as a means to control the economy. There were depressions in the 1870s, 1880s, and 1890s. There was the price system under which farmers sold their goods wholesale in a competitive world market but paid retail prices for industrial goods in a controlled economy. There was also a strong resistance towards taxes on consumption.

Proposals to reinstate the income tax were introduced by Congressmen from agricultural areas who didn't want a federal tax on property. Other support for an income tax came from trade unions and from people with small businesses. The wealthy manufacturers supported high tariffs on goods imported into the United States. An income tax, they argued, would lead to socialism or communism in this country.

High tariff barriers remained from 1896 until 1910. The War Revenue Act of 1898 sought to raise funds for the Spanish American War through the sale of bonds and through taxes on recreational facilities used by workers. In addition, taxes were doubled on beer and tobacco. A tax was even imposed on chewing gum. The Act expired in 1902.

People were becoming more aware that high tariffs and excise taxes fell heavily on the less affluent. An income tax became more appealing to southern and western members of Congress. Their pressure led to the income tax as we know it today. The agreement allowed for a tax, called an excise tax, to be imposed on business income and a Constitutional amendment was proposed to let the federal government impose income taxes without regard to the population of each state.

By 1913, 36 states ratified the 16th amendment, making it part of the United States Constitution. In October of that year, Congress passed a new income tax law. The income tax used the progressive rate system and was based on the ability to pay. Less than 1% of the population was required to pay income taxes. Form 1040 was introduced as the standard tax reporting form. Though changed in many respects, the form remains in use today.

One of the problems with the new income tax law was how to define "lawful" income. Congress then passed a law in 1916 deleting the word "lawful" from the definition of income. As a result, taxes had to be paid on all income, even if earned by illegal means. Several years later, the Supreme Court declared that the Fifth Amendment did not protect bootleggers and others who earned income through illegal activities from paying taxes. Congress also required that information from tax returns be kept confidential.

### World War I and 1920s

Our entry into World War I greatly increased the government's need for revenue. The 1916 revenue act taxed estates and excess business profits. The 1917 federal budget was almost equal to the total U.S. budget for all the years between 1791 and 1916. The War Revenue Act of 1917 lowered exemptions and increased taxes. The Act greatly increased internal revenue—from $809 million in 1917 to $3.6 billion the next year.

Another revenue act was passed in 1918. The revenue act codified all existing income tax laws. It taxed incomes of more than $1 million at a rate of 77%. Still only 5% of the population had to pay income taxes.

Public acceptance of the income tax was helped by patriotic efforts during World War I. The Bureau of Internal Revenue (as it was called then) used volunteer public speakers to persuade the American people that paying taxes was their patriotic duty to support the war effort. One-third of the cost of the war was paid for by income taxes.

Business boomed during the 1920s. As the economy expanded, revenue from the income tax also grew. Congress cut taxes five times, while still collecting enough revenue.

In October of 1929, the stock market crashed. This marked the beginning of the greatest depression in the nation's history. The government was soon spending more money than was being collected. In 1932, only $1.5 billion had been collected, compared to $5.5 billion in 1920. To collect more revenue, Congress passed the Tax Act of 1932. This Act raised the tax rates and lowered exemption levels.

In 1939, Congress systematically codified the old and new laws. Tax legislation passed later amended this basic code. The code was revised by the 83rd Congress and enacted as the Internal Revenue Code of 1954. The Internal Revenue Code of 1954, as amended, is still in effect.

### The Social Security Tax

The state of the economy during the Great Depression led to passage of the Social Security Act in 1935. This law provided payments to workers who lost their jobs. The payments were called "unemployment compensation." Other sections of the Act gave public aid to the aged, the needy, the handicapped, and to certain minors. At first, these programs were financed by a 1% tax, paid by both the employer and employee, on the first $3,000 of the employee's salary or wage. The tax rate has increased greatly since then.

### World War II

World War II had a significant effect on the federal income tax system. The need for high defense spending led to the passage in 1940 of two tax laws that increased individual and corporate taxes. Even though the United States had not formally entered the war, money was needed to support our allies who were already involved. The Revenue Act of 1941 lowered exemption levels and increased taxes on excess profits being made on the war effort. These laws increased internal revenue from $1.6 billion in 1933 to $7.4 billion in 1941. By 1945, revenue collection had grown to $45 billion.

Changes in the tax laws did more than simply increase revenues. They expanded the tax base to include all but the lowest-paid workers. Between 1939 and 1945, the number of taxpayers grew from four million to 43 million.

During the war years, other changes were made to the tax system. In 1943, employers were required to withhold taxes from employees' paychecks, as was done during the Civil War. A year later, the standard deduction was created to simplify tax returns for those with yearly incomes under $5,000.

### Recent Developments

After the war, Congress followed the usual pattern of reducing taxes. However, the reductions were modest because of increased social programs.

In 1950, social security coverage was expanded to include self-employed persons. This increased both the tax base and total revenues collected.

The Bureau of Internal Revenue was renamed the Internal Revenue Service in 1953, following a reorganization of its function. The new name was chosen to stress the service aspect of its work.

By 1959, the Internal Revenue Service had become the world's largest accounting, collection, and forms-processing organization. The IRS began using computers to simplify its work and improve service to taxpayers. In 1961, Congress passed a law requiring individual taxpayers to use their social security number as tax form identification for the computer. By 1967, all business and personal tax returns were handled by the computer system.

By the late 1960s, IRS had developed a computerized method for selecting tax returns to be examined. This advanced technique made the selection of returns more uniform and fairer to the taxpayer. The method reduced the total number of returns selected. It also focused on those returns that are most likely to require adjustment following an audit.

Since the Internal Revenue Code was reorganized in 1954, amendments to the code have been passed periodically. One important set of changes was contained in the Tax Reform Act of 1969. This Act reduced income tax rates both for individuals and private foundations. More recently, the Economic Recovery Tax Act of 1981 contained large reductions in income tax rates. The law provides for a 23% reduction in tax rates between 1981 and 1983. The Act also made changes to encourage taxpayers to save for retirement and to reduce taxes on corporate incomes.

# MODULE 4

## Economics of Taxation

### Objectives

At the end of this module, you will be able to:

1. Identify major government services
2. Identify and classify major taxes
3. Define "ability to pay" and "progressive taxation."

### Introduction

Throughout history, every organized society has had some form of government. In free societies, the goals of government have been to protect individual freedoms and to promote the well-being of society as a whole.

To meet their expenses, governments need income, called "revenue," which is raised through taxes. In our country, several different types of taxes are imposed on individuals and businesses. The federal government relies mainly on income tax for its revenue. State governments depend on both income and sales taxes. Most county and city governments use property taxes to raise their revenue.

In this module, we describe briefly many of the services that our federal, state and local governments provide. The purpose is to explain why taxes are needed. You will also read about the different types of taxes that are used to pay for these services and about important features of the federal income tax system. At the end of this module, you will read about some types of taxes in other countries.

## Government Services

Our American economy is based on the free enterprise system. Consumers are free to decide how to spend or invest their time and money. The goal of producers is to make profits by satisfying consumer demand. Open competition among producers usually results in their providing the best quality of goods or services at the lowest possible prices.

The free enterprise system is not designed to produce all the services needed by society. Some services are more efficiently provided when they are planned or administered by government agencies. Two good examples are national defense and state or local police protection. Everyone benefits from these services, and the most practical way to pay for them is through taxes rather than some method of service fees. Other examples are the management of our natural resources, such as our water supply or publicly-owned land, and the construction of hospitals or highways. Taxes are collected to pay for planning these services and to finance construction or maintenance. Revenue is also collected through user fees, such as at the entrances to national parks or at toll booths on highways and bridges.

Society benefits from a safe and healthy environment. In the free enterprise system, however, there is often little incentive for producers to pay the extra cost for maintaining this kind of environment. Government regulations, therefore, are imposed on producers such as auto manufacturers, who must install air pollution controls. These controls often add costs to the price of new cars. There are also regulations to control such things as the use of billboards and signs along highways, reclaiming land after strip mining, dumping industrial waste into streams and rivers, and noise pollution at airports.

The free enterprise system is based on competition among producers. With competition, only the most efficient producers survive in the business market. To ensure that a degree of competition exists, the federal government enforces strict "anti-trust" laws to prevent a producer from gaining monopoly control over a market.

Some services however, are more efficiently provided when there is no competition. These are often called "natural monopolies." The best-known examples are the utility companies, which provide water, natural gas, and electricity for home and business use. If there were free competition, the cost of these services would surely rise. Since there is no competition, government agencies carefully regulate the services, prices, and profits of the utility companies.

In the free enterprise system, it is assumed that consumers are knowledgeable about the quality or safety of what they buy. However, in our modern economy, it is often impossible for consumers to make informed choices. For public protection, regulations are issued and enforced by government agencies at the federal, state, and local levels. There are regulations to cover the quality and safety of such things as home construction, cars, and electrical appliances. There are also regulations for financial services provided by banks, insurance companies, and stock brokers. Another important form of consumer protection is the use of licenses to prevent unqualified people from working in certain fields, such as in medicine or the building trades.

Education is provided mainly through public expense. City and county governments have the primary responsibility for elementary and secondary education. Most states support colleges and universities. The federal government supports education through grants to states for elementary, secondary and vocational education. Federal grants for conducting research are an important source of money for colleges and universities.

Since the 1930s, the federal government has been providing income or services for those in need. This system is often called a "safety net." Major programs include health services for the elderly, financial aid to families with dependent children, and social services for those with low incomes.

## Taxes in the United States

To pay for government services, revenue is raised by taxing three economic bases: income, consumption and wealth. The federal government taxes income as its main source of revenue. State governments use taxes on income and consumption, while local governments rely almost entirely on taxing wealth.

### Taxes on Income

The earnings of both individuals and corporations are subject to income taxes. Most of the federal government's revenue comes from income taxes. The personal income tax produces about five times more revenue than the corporate income tax.

Not all income is taxed in the same way. For example, if you own stock in a corporation for more than 12 months and then sell it at a gain, the profit is treated as "capital gain" and only 40% of the profit is included in income. (For stock you bought after June 22, 1984, this treatment applies if you own the stock for more than 6 months.) By comparison, the interest paid to you on money in a regular savings account is included totally in income.

Payroll taxes are an important source of revenue for the federal government. These are paid by employers for social security insurance and unemployment compensation. Employees also pay into the social security program through money withheld from their paychecks. Some state governments also use payroll taxes to pay for state unemployment compensation programs.

Over the past several years, the amount paid in social security taxes has been greatly increased. This is because there are fewer workers paying into the system for each retired person now receiving benefits. Today, some workers pay more social security tax than income tax.

### Taxes on Consumption

The most important taxes on consumption are sales and excise taxes. Sales taxes are usually paid on such things as cars, clothing and movie tickets. Sales taxes are an important source of revenue for most states and some large cities and counties. The sales tax rate varies from state to state, and may be as high as 8% of each dollar spent. The list of goods or services to be taxed also varies from one state to the next.

Excise taxes, sometimes called "luxury taxes," are used by both state and federal governments. Examples of goods subject to federal excise taxes are tires, fishing equipment, airplane tickets, gasoline, beer and liquor, firearms, and cigarettes.

The objective of excise taxation is to place the burden of paying the tax on the consumer. A good example of this use of excise taxes is the gasoline excise tax. The revenue from this tax is used to build and maintain highways, bridges, and mass transit systems. Only people who purchase gasoline—and who use the highways—pay the tax.

Some items are taxed to discourage their use. This applies to excise taxes on alcohol and tobacco. Excise taxes are also used during a war or national emergency. By raising the cost of scarce items, the government can reduce the demand for these items.

### Taxes on Wealth

The property tax is local government's main source of revenue. Most localities tax private homes, land, and business property on the basis of the property's value. In many cases, the taxes are included in the mortgage payment. The one who holds the mortgage, such as a bank, holds the money in an "escrow" account. Payments are then made on behalf of the property owner.

Some state and local governments also impose taxes on the value of certain types of "personal" property. Examples of personal property often taxed are cars, boats, recreational vehicles, and livestock.

Property taxes account for more than three-fourths of the revenue raised through taxes on wealth. Other taxes imposed on wealth include inheritance, estate, and gift taxes.

### The Federal Income Tax

A basic principle underlying the income tax laws of the United States is that people should be taxed according to their "ability to pay." Taxpayers with the same total income may not have the same ability to pay. Those with high medical bills, interest payments, or other allowable expenses are entitled to subtract these amounts as "itemized deductions" to reduce their taxable incomes. Similarly, taxpayers may subtract $1,000 on their tax returns for each "exemption" to which they are entitled. By lowering one's taxable income, these exemptions and deductions support the basic principle of taxing according to ability to pay.

Those with high taxable incomes pay a larger percentage of their income in taxes. This percentage is called the "tax rate." For 1984, the rates range from 11% for the lowest level of taxable income to 50% for any portion that falls within the highest income bracket. Since those with higher taxable incomes pay a higher percentage, the federal income tax is called a "progressive" tax.

Sales and excise taxes, by comparison, are considered "regressive." Since the goods are taxed at the same percentage, those with lower incomes pay a larger percentage of their income in sales and excise taxes. For example, suppose two families pay $2,500 for food each year, yet their annual incomes are $10,000 and $20,000. If their state has a 4% sales tax on food, both families would pay $100 in sales tax. As a percentage of income, however, the first family would pay 1% of its income for sales tax on food, while the other would pay only ½%.

Federal income taxes are collected on the "pay-as-you-go" system. Most employers are required to withhold taxes from their employees' paychecks and send the money for deposit into the federal treasury. Self-employed individuals and businesses must pay their taxes in regular installments, known as estimated tax payments. Paying taxes through withholding or estimated taxes during the year helps reduce the government's expense for borrowing money. It also provides an easier method for taxpayers to pay their taxes.

To keep collection costs down, the Internal Revenue Service expects all taxpayers to comply with the law voluntarily. Most taxpayers determine how much they are supposed to pay and file their income tax return by the date it is due. Without this voluntary compliance, it would cost the Internal Revenue Service a great deal more to collect the same amount of revenue.

## Your Federal Dollar

The federal government operates on a fiscal year. For Fiscal Year 1984 (which began on October 1, 1983 and ended September 30, 1984), 35 cents of each federal dollar came from personal income taxes, 29 cents came from social security and other insurance taxes and contributions, and 7 cents came from corporate income taxes. Excise taxes produced 4 cents of each revenue dollar and other receipts produced 4 cents per dollar. Twenty-one cents of each dollar was borrowed by the federal government.

Where did the money go? About one-third of it, 32 cents of each federal dollar, was spent on income security programs such as social security, unemployment compensation, retirement and disability payments, and benefits such as food stamps and housing subsidies.

The next largest amount, 28 cents of each dollar, was spent on national defense. These funds were used to pay salaries of members of the Armed Services and to provide equipment and supplies to our armed forces. This amount also included pensions for retired military personnel and defense-related atomic-energy activities.

Net interest—interest payments on the public debt, less interest received by trust funds and other interest received—accounted for 13 cents of each dollar spent. Money was borrowed through treasury bonds, notes, savings bonds, and other securities.

The federal government also spent 11 cents of each dollar on health care. This included assistance for the poor and the aged through the Medicaid and Medicare programs, the training of health care professionals, and medical research activities.

Three cents of each federal dollar was spent on education, training, and social services, including grants to elementary, secondary, and vocational schools and assistance to colleges and universities. Also included in this figure were grants made to states for social services programs.

Another 3 cents of every dollar was spent on benefits and services to veterans and their dependents. This included pensions, medical services, education training, and life insurance programs.

Three cents of each dollar was spent on transportation. Much of the money was paid out in grants to states and local governments for constructing highways, mass transit systems, and airports. Also included in this figure were the costs of operating the Coast Guard, regulation of the airways, and assistance to railroads and shipping.

Other federal government services and activities accounted for the remaining 7 cents of each dollar spent. These were:

1. Environmental protection, protection of natural resources, and maintenance of public lands and recreation areas;
2. Assistance to foreign countries;
3. Disaster relief and community and regional development;
4. Energy research, development, and conservation;
5. Revenue sharing to states and local government units;
6. Space exploration and other scientific research;
7. General governmental activities;
8. Federal law enforcement and maintenance of federal prisons;
9. Payments to the Postal Service, aid to small businesses, and mortgage financing assistance; and

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18. Agricultural research, conservation of farmland, and crop subsidies.

## Taxes in Other Countries

Most of the taxes used in this country are also used in other countries. However, other types of taxes are imposed as well. The information given here about taxes in other countries is current through October 1983. In Canada, for example, a sales tax is assessed at the wholesale level. This tax is passed through to the consumer. Many Western countries have what is known as a "value-added tax." This tax is assessed on the increased value of goods at each stage in their production and distribution. In France, most goods are taxed at about 18%, though luxury items are taxed at 33% and food at only 7%. Many less-developed countries depend on taxing their leading exports for most of their revenue. In Sweden, a wealth tax is imposed annually, the maximum tax rate being 2.5%.

The income tax rates in other countries differ from those used in the United States. In Sweden, local governments use a flat 20 or 25% rate on incomes of any level. Australia uses only three income brackets, with the tax rate for the lowest bracket being 32%, compared to 11% in the United States. Most countries with income taxes use a progressive rate structure. In the United Kingdom, the lowest tax rate is 35%. This rate climbs slowly until reaching the upper brackets. The highest rate is 83% on salaries and wages and 98% on income from investments.

Other countries permit tax deductions and allowances that are not used by the United States. In Canada taxpayers are permitted to deduct up to $1,000 each year by investing in the Registered Home Ownership plan. If the money is withdrawn to buy a house, it is not taxed. In the United Kingdom, businesses can deduct the full value of equipment purchases and other capital expenditures. This is done by taking 100% depreciation in the first year. ("Depreciation" is the loss in value of equipment and other capital goods due to age or wear.)

Methods for administering a country's tax system vary as well. In Australia taxpayers file a return but do not calculate their own taxes. The Australian government uses information on the return to assess the tax owed. In France there is no system for withholding taxes by employers. Instead, citizens must make their own payments three times a year. The French divide all income into eight categories. Losses in one category cannot be used to offset income in another. However, the tax is assessed on all the categories added together.

# MODULE 5

## Politics of Taxation

### Objectives

At the end of this lesson, you will be able to identify and discuss:

1. The executive branch's role in tax legislation
2. How Congress passes tax legislation
3. How members of Congress are influenced by voters and pressure groups.

### Introduction

Tax laws have an important effect on our economy. The amount of revenue raised through taxes determines, in large part, the amount of services that the government can afford to provide.

The steps that Congress takes to pass a federal law are called the legislative process. It begins when a senator or representative prepares a proposed law, called a "bill." It ends when Congress approves the bill and sends it to the President. When the President signs the bill, it then becomes the law of the land.

The Constitution states: "all bills for raising revenue shall originate in the House of Representatives." It further states that "Congress shall have the power to lay and collect taxes." Presidents can, and frequently do, recommend changes to current tax laws, but only Congress can actually make any changes.

In this module, you will learn how tax legislation is passed. It involves the interplay of many personalities, pressures, and forces. As a future voter and taxpayer, you should know how these decisions are made and how your representatives in Congress are influenced by public pressure.

### Executive Branch Preparation

Most recommendations for new tax legislation come from the President. Many people are involved in shaping these recommendations. Months of preparation may go into new proposed legislation before the President makes his recommendations to Congress.

The Treasury Department has primary responsibility for drafting the President's tax recommendations. The advice and assistance of other government agencies, such as the Internal Revenue Service, or people in business or professional fields, may also be used for this task.

The drafted legislation is then sent to the White House for review by the President and his advisors. The President may direct that changes be made or that some provisions be removed or added. The Treasury Department makes these changes and provides the President with any additional information he requests. The proposed legislation, along with a message from the President, is then formally submitted to Congress.

The President may send tax proposals to Congress at any time. In practice, however, only one major tax bill is proposed each year. The president often makes brief mention of his tax proposals in his annual State of the Union message to Congress. Any proposed tax legislation is also discussed in the Economic Report of the President, which is sent to the Congress every January. Proposed tax legislation is usually sent to Congress some time in the first few months of the year.

### Congressional Tax Legislation

The Constitution states that all legislation concerning taxes must "originate" in the House of Representatives. The House usually must take action on tax legislation before the Senate can begin its consideration of the matter.

### Committee on Ways and Means

The House Committee on Ways and Means is responsible for considering all legislation dealing with taxes. Thus, it is one of the most powerful Congressional committees. Tax legislation is so important that most Ways and Means members have served as Representatives for many years before being appointed to this committee.

The Ways and Means Committee schedules hearings for people to testify on the proposal. The Secretary of the Treasury is the first to speak. He may be followed by other officials from the Administration, such as the Director of the Office of Management and Budget. Testimony is also heard from representatives of private interest groups. These witnesses answer questions from committee members on how the proposal will affect the economy and specific groups.

During this period, members of the House Ways and Means Committee are privately contacted by many people seeking changes in the bill. This is one of the forces that help sway the opinion of members.

When the hearings are concluded, the Ways and Means Committee goes into executive session. At this time, the President's proposal is "marked up." These mark-up sessions are relatively informal and are concerned with making revisions to the proposals. Committee staff members, as well as staffs of the Congressional Joint Committee on Internal Revenue and the Treasury Department, may be called on for information, advice, and assistance. These sessions are open to the public and many observers are present, from both the news media and interest groups. The Administration sends representatives to watch the mark-up proceedings and to advise committee members.

As tentative decisions are reached on the proposal, they are drafted into legislative language. The committee also prepares a detailed report on the proposed legislation. The report can be longer than the bill itself. It presents the committee's reasons for recommending the bill. This committee report is used later by the Internal Revenue Service and the courts as an interpretation of the legislation. Once the bill and report are completed, they are introduced in the House of Representatives.

### Senate Finance Committee

Like the House Ways and Means Committee, the Senate Finance Committee is very powerful and prestigious. It is responsible for all Senate legislation dealing with tax matters.

The Finance Committee begins its formal work on tax legislation after the House has passed its version of the bill. The committee holds hearings similar to those held earlier by the Ways and Means Committee. Instead of considering the Administration's proposal, however, it considers the bill passed by the House.

Witnesses appear at the Finance Committee hearings in the same order as in the Ways and Means Committee. The witnesses direct their testimony to the House version of the bill.

After hearings are finished, the Finance Committee marks up the House bill. The process is similar to that used by the Ways and Means Committee. When the Finance Committee completes mark up, the bill is usually very different from the one passed by the House. The bill is then reported to the full Senate for floor action. A report is filed along with the bill, which explains in detail the amendments made by the Finance Committee.

The entire Senate debates on the bill as reported by the Finance Committee. It may be further amended at this point before it is brought to a vote. If the Senate does not pass the bill, the legislation is abandoned. If the Senate should pass the House version of the bill, without amendments, it is sent directly to the President.

The usual course, however, is that the Senate passes an amended version of the House bill. In this case, further congressional action is required because there are now two versions of the bill—the bill as passed by the House and the House bill as amended and passed by the Senate.

The bill, with the Senate amendments, is returned to the House. The House usually adopts a motion to disagree with the Senate amendments. A conference committee is then appointed to adjust the differences between the two versions of the bill.

### Conference Committee Action

Members of the Committee of Conference are appointed by the Speaker of the House and the President of the Senate. Each chamber votes as a unit. Members of the majority party control each unit. Again, representatives of the Administration and interest groups will try to have the conferees support or oppose aspects of the bill. The conference committee reports its version back to both the House and Senate, which then vote on the committee's compromise version. If it is adopted, the revised bill is sent to the White House.

### Executive Branch Action

Before the President decides to sign or veto a tax bill, he receives advice from the Secretary of the Treasury on the bill's provisions. The President also solicits comments from other federal agencies and then makes a final decision. If he decides to veto the bill, he returns it to the House of Representatives along with a statement of why he is opposed to various portions of the bill. The House must then attempt to override the veto, or make those changes that the President wants.

If the President signs the bill, action is taken to implement the bill. The Treasury Department issues regulations and tax schedules, while the Internal Revenue Service prints new tax forms and instruction booklets for taxpayers.

## Influencing Congress

Under the United States Constitution, the American public has the right to a representative form of government. Members of Congress and the President must be elected to office. To continue serving the public, they must be reelected for another term. The First Amendment to the Constitution grants citizens the right to "petition the government for a redress of grievances." Citizens may act on their own behalf, as individuals, or organize into groups for the purpose of influencing government officials.

As a citizen, you are entitled to make your views known to those who represent you in Congress. You can write letters, visit your representative's or senators' offices in your district or state, contribute time or money to a candidate's campaign, vote in the primaries and general election, and join groups that share your ideas.

Members of Congress are often strongly influenced by pressure groups that have been formed to achieve certain goals. Most of these groups are concerned only with a narrow set of issues. These are known as "special interest" groups. There are also "public interest groups" that are concerned with issues affecting the public at large rather than just their own members.

Pressure groups use many tactics to achieve their goals. They attempt to influence the voting public through paid advertising, public speaking, and direct mail campaigns. By swaying public opinion, they hope to influence indirectly the actions of Congress or officials in the executive branch.

Pressure groups also attempt to influence members of Congress more directly. They organize letter-writing campaigns, contribute time and money to help get candidates elected, present members of Congress with proposed legislation, supply background information or statistics to support their viewpoints, and testify at Congressional hearings. Many groups have an office in Washington for these activities.

When pressure groups seek to influence the course of legislation, it is called "lobbying." This term was coined many years ago, when people would wait in the lobbies outside the House and Senate chambers, hoping for the chance to speak with the lawmakers as they entered or left. Today, lobbying is an accepted part of the legislative process. Lobbyists are often viewed by members of Congress as useful sources of information and political support. The pressure groups that they represent are seen as a valuable means for citizens to present their views before members of Congress.

Tax legislation is of particular interest to many pressure groups and individual citizens. Even small changes to the Internal Revenue Code can have important economic effects on certain groups of individuals, businesses, or industries.

There are many examples of tax issues around which pressure groups have been extremely active. Recent tax legislation included incentives for taxpayers to save money in ways that would reduce their taxes. Banks and other financial institutions that would benefit from this new source of investment lobbied strongly for the provisions. A few years ago, public interest groups fought hard to change the tax law so that small contributions to political campaigns could be used to offset personal income taxes. In another lobbying effort, work-related child care expenses became a tax-deductible item. This was achieved through pressure from organizations concerned with work, women's rights, and the well-being of children.

# MODULE 6

## State Taxes

### Objectives

At the end of this module, you will be able to:

1. Identify the common types of state taxes
2. Describe the two methods used to determine personal income tax
3. Describe the three common types of sales tax
4. Describe personal property tax
5. Identify other types of state taxes.

### Introduction

Ever since the beginning of our history, the states have maintained the right to impose taxes. The federal government has always recognized this right. When our Constitution was adopted, the federal government was granted the authority to impose taxes. The states, however, retained the right to impose any type of tax except those taxes that are clearly forbidden by the United States Constitution and their own state constitution. Today, the states acquire the necessary revenue to maintain their governments through tax collection, fees, and licenses. The federal government also grants money to the 50 states. Under revenue sharing, the national government returns to the states and the local government some tax dollars that it has collected. With the revenue that the states receive from revenue sharing, taxes, licenses, and fees, they provide public services. Examples of these public services are public schools, police protection, health and welfare benefits, and the operation of the state government.

Among the common types of taxes that many states impose are personal income tax, corporate income tax, sales tax, and real property tax. Throughout the 1930s and 1940s, personal income tax and sales tax were introduced in many states because additional revenue was needed to finance public services.

Real property tax has, however, a long history. In 1646, the Massachusetts Bay Colony began taxing settlers who owned property. After independence, many states started to tax property. As time passed, local communities took over the power to tax property. Today, property tax is usually paid to a local government, a school district, a county government, or a water district, but not to a state.

## Personal Income Tax

History shows that it was the states that introduced personal income tax into America. The first modern personal income tax system was originated in 1911 by the State of Wisconsin. Today, more than 40 states require their residents to pay a personal income tax. These states generally use one of two methods to determine income tax. These two methods are the graduated income tax and the flat rate income tax, and both methods first require the taxpayer to figure his or her taxable income.

### Taxable Income

The income a taxpayer receives from all sources in a year is his or her total income. A taxpayer may receive money from many sources, including wages, interest from banks, dividends from stocks, tips, social security payments, welfare payments, and insurance benefits. Income from some sources is taxable while income from other sources is not.

Beginning in 1984, a part of social security benefits may be taxable.

Income from nontaxable sources includes welfare payments and insurance benefits. When a taxpayer fills out a state income tax form, he or she would include only the taxable amounts. These amounts are called gross income.

However, a taxpayer does not necessarily pay his or her state income tax on gross income. To make the personal income tax more equitable, many states allow adjustments, exemptions, and deductions.

Adjustments to gross income often include business expenses paid by an employee, such as use of an automobile (other than driving to and from work) and moving to another city to get or keep a job. Other common adjustments are payments to a self-employed retirement fund, disability income, and alimony. Adjustments are subtracted from gross income for the taxpayer to arrive at adjusted gross income.

Exemptions from income are allowed in most states with a personal income tax. Exemptions for a taxpayer, his or her spouse, and each of the dependents reduce the amount of tax due.

Many states provide for a standard deduction, which reduces income by a fixed percentage or fixed amount. Or a person may choose to deduct actual expenses (itemized deductions) if they are larger than the standard deduction.

Like the federal government, many states permit people to deduct money spent for medical care, contributions to charitable organizations, interest on debts, and certain taxes. A person may choose to subtract from adjusted gross income either the total amount of these expenses or the standard deduction, whichever is greater.

After having subtracted these benefits from the adjusted gross income, a taxpayer now has taxable income. This is the income that will be taxed. At this point there are two methods for determining personal income tax: the flat rate and the graduated rate.

### Flat Rate

Some states have what is called a flat rate income tax. For example, if a state requires that 3% of all taxable income be paid to the state, the person having $6,000 in taxable income would pay $180 (3% of $6,000) while another person having $4,000 in taxable income would pay $120 (3% of $4,000). When assessed in this manner, the income tax is regressive.

### Graduated Rate

In most states there is a graduated income tax. Under this method, those who receive a large income pay a higher rate of tax. A graduated tax divides the income into segments (brackets) and taxes each bracket at a different rate. When assessed in this manner, the income tax is progressive.

| Bracket | Income | Tax |
|---|---|---|
| 1 | $0–$2,000 | 2% of income |
| 2 | $2,001–$4,000 | $40 plus 3% of the amount over $2,000 |
| 3 | $4,001–$6,000 | $100 plus 4% of the amount over $4,000 |
| 4 | $6001 and over | $180 plus 5% of the amount over $6,000 |

Using the table above, let's see how this system works. All persons whose income is $2,000 or less (Bracket 1) pay the same percentage (2%). Those whose income falls into Bracket 2 pay the 2% applicable to their Bracket 1 income ($40), plus 3% on all income over $2,000. In the following example, a person with a taxable income of $10,000 will pay $380 tax, figured as follows:

| | | |
|---|---|---|
| $0–$2,000 | 2% | $ 40 |
| $2,001–$4,000 | 3% | 60 |
| $4,001–$6,000 | 4% | 80 |
| $6,001–$10,000 | 5% | 200 |
| Total Tax | | $380 |

The system works progressively upward. Only the additional money in each bracket is taxed at a higher percentage.

### Withholding

Most states require employers to withhold tax money from their employees' pay. This method is similar to the federal tax system. The employee is actually on a pay-as-you-go basis, paying taxes as the money is earned.

The employer is required to send these withheld tax dollars to the state and provide each employee with a record of earnings and taxes withheld (federal Form W-2).

When an employee files a tax return, the amount withheld by the employer is compared to the tax liability. Ideally, the amounts should balance exactly, but there will usually be an overpayment to be refunded, or additional tax to pay with the return.

## State Sales Taxes

A sales tax is a tax levied on the sale of goods and services. Very often you pay sales tax when you purchase something.

There are three different types of sales tax: the vendor tax, the consumer tax, and the combination vendor-consumer tax.

### Vendor Tax

A vendor tax system taxes the person doing business. This tax is imposed by some states because they consider that it is an individual's privilege to be engaged in business. The tax is based upon the amount of goods sold. For example, if you owned a record store, you would be taxed by your state for the right to sell records to the public. The amount of tax you paid would be based upon how many records you sold.

### Consumer Tax

A consumer tax system taxes the retail sale. The vendor at a store collects the tax from the buyer and then sends the tax money to the state. For example, if you bought a record album, you would pay a tax in addition to the record price.

### Combination

A combination vendor-consumer system taxes the vendor (the owner of the record store) who then is required to pass the tax onto the consumer (the person who buys the record). From the standpoint of the consumer, a combination vendor-consumer sales tax appears identical to a consumer sales tax. The consumer pays a tax in addition to the sale price.

### Sales Tax, A Regressive Tax

All states that apply a sales tax have an established rate. This sales tax rate is usually between 4% and 8%. For example, if you bought a record for $7, you would have to pay between 28 cents and 56 cents sales tax, depending upon the state. This established rate can pose problems. All people, no matter how much money they earn, pay the same percentage of tax. Such a tax is called a regressive tax because the people with smaller incomes pay a larger percentage of their money into the sales tax system than people with higher incomes. However, since all of us use state services, such as state highways, state public schools, and state medical institutions, all should pay a tax for using these services.

### Exclusions and Exemptions

To help those groups that are adversely affected by a regressive sales tax, exclusions are often used by the states that levy a sales tax. Exclusions in sales tax often include food, clothing, medicine, newspapers, and utilities. For example, since food is a necessity, some states do not tax food. In addition, certain groups are often exempt from paying sales tax. Charitable, religious, and educational groups are often excused from paying sales tax under certain circumstances. A large proportion of a state's sales tax revenue goes towards education, the running of the state government, and public welfare. Because of this, many states consider sales tax to be the most important tax they impose.

### Use Tax

In addition to the sales tax, many states also have a use tax. A use tax is very similar to a sales tax and is imposed for the storage, use, or purchase of personal property, which is not covered by the sales tax. Usually, it is applied to lease or rental transactions, or to major items purchased outside of the state, such as automobiles.

## Property Tax

The revenue from property taxes usually goes towards financing public services, such as public schools, police protection, and sanitation. The amount owed to be paid is figured on the total value of the property or on a certain percentage of the value. People usually pay property tax to the county, school district, local government, or water district. It is, however, the state that establishes the guidelines under which local governments can impose property taxes.

What is considered property? Our 50 states have different definitions of property that is to be taxed. Some states allow local communities to tax real property. Real property consists of land and items that are permanently attached to the land. Examples of real property are homes, factories, wharves, and condominiums. Other states also permit local governments to tax personal property. Personal property is property that is not real property. Examples of personal property are boats, cars, jewelry, airplanes, computers, equipment, tools, and furniture.

### Figuring Property Tax

A property tax can pose problems because the amount of tax to be paid is based on the value of the property. To determine the value of a piece of real property, an assessor is often employed. The assessor determines how much a piece of property would sell for if it were being sold today. The estimate is called the market value. For example, an assessor appraising a house would investigate the sale of a similar house in the area, the general market conditions of the day, the location and age of the house, and the construction of the house. Depending on which state the taxpayer resides in, he or she would either be taxed on the market value of the property or on a fraction of the actual market value. The assessment is the amount on which the taxpayer is actually taxed. This may seem unfair, since residents in some other states pay their taxes on a fraction of the market value. However, states base their property taxes on millage rates. A mill is equal to one-tenth of a cent. Usually, states that require taxes to be paid on the total market value will have a lower millage rate than those states that tax property on only a part of the market value.

### Exemptions

As with other taxes, the property tax is one that various states exempt some groups or organizations from paying. Hospitals, schools, religious facilities, and state and local governments are placed within the exemption category in many states.

### Changing Property Taxes

Property taxes are the most important source of income for local governments today. About 81% of local government tax revenues come from property taxes. You probably have heard or read about taxpayers voting either to increase or to decrease their local property taxes. This occurs because, under state law, a local community is usually limited as to how much property tax money it can collect from each resident. As prices have risen, local governments have had to curtail services or ask their voters to increase the amount of money they can collect. Because of this situation, some states now want to administer property tax once again on the state level. These states believe that they could better administer and allocate the property tax dollars for public schools, welfare programs, and police protection.

## Other State Taxes

In addition to personal income tax, sales tax, and property tax, there are other taxes that states may impose, including fuel tax, inheritance tax, and corporate income tax.

### Fuel Tax

Every state imposes a liquid fuel tax on gasoline and diesel fuel purchased within the state. Most often the tax on gasoline and diesel fuel is a cents-per-gallon tax. The tax rates vary from state to state, but the concept remains the same. For example, if gas costs $1.10 a gallon, and the state imposes a tax of 8 cents a gallon, you would pay $1.18 for each gallon of gas. Liquid fuel taxes are collected by the distributor. The distributor must then submit the tax revenue to the state government.

Liquid fuel taxes are user taxes. A user tax is paid by those people who will most directly benefit from the service it pays for. Because money is required to build and maintain highways and roads, the idea is that drivers who use state highways should pay for them through taxes. As with other state taxes, certain groups are exempted from paying tax on gasoline consumption. For example, volunteer fire companies and governmental units are often exempted from paying gas taxes. Gasoline taxes are often refunded to farmers for gasoline used in their farming operation.

### Inheritance Tax and Estate Taxes

Inheritance tax is a tax that is imposed on the transfer of property after the owner's death. Under the inheritance tax system, the beneficiary of the property must pay the tax. As with a state personal income tax system, the inheritance tax will be determined by the flat rate method or graduated rate method. Most states impose an inheritance tax.

Estate tax is different from inheritance tax in that estate tax is imposed on the entire estate of the individual. The federal government and some states use the estate tax system.

### Corporate Income Tax

Most states impose a corporate income tax, which makes corporations subject to income tax just as individuals are. As with state personal income tax systems, state corporate income tax systems use the graduated method in some states and the flat rate method in others. Some states purposely keep their corporate income tax rates lower than other states as part of their business incentives. These incentives also include certain tax exemptions. They are designed to attract new businesses to these states.

## Conclusion

The state tax programs discussed account for the majority of revenues collected by the states. There are, however, a wide variety of miscellaneous taxes, which raise millions in additional revenues. Examples of these taxes include taxes on alcohol, cigarettes, gambling, forest lands, professional services, transfers of real estate, and on the sale of stocks and bonds.

Like individual people, corporations may also pay taxes other than their income tax. Businesses in many states also pay property taxes, licensing taxes, and business privilege taxes. Many states have special types of taxes for certain types of industries, such as utilities, insurance companies, and financial institutions.

In recent years, lotteries, although not taxes, have become a major source of additional revenue for many states.

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# MODULE 7

# Facts and Fallacies About the IRS

## Introduction

Much of the information people get about the IRS and taxes is from unofficial sources, such as neighbors, relatives, books, and magazine and newspaper articles. Although this information may be helpful, it is not always accurate or complete and may cause unnecessary worry.

This module presents some common fallacies and clears them up with some statements of fact.

## Fallacy #1

Using the peel-off label and coded envelope from your tax package will cause your return to be examined.

Fact—The peel-off label and the envelope provided by IRS with your tax package are designed to speed the processing of your return. The coded label prevents errors in your name and social security number that could delay your refund. The special-sized envelope is designed to be opened quickly at the service center, and it is pre-addressed to ensure that it arrives at the correct destination. There is no information on either the label or envelope that causes a tax return to be selected for an examination.

## Fallacy #2

If you call IRS, the call will be recorded and your return marked for examination.

Fact—The IRS telephone system is not used to screen taxpayers for future tax examinations. The calls may be monitored, however, under the Service's quality review program. Under this program another employee may listen to the call, but only to make sure you receive accurate and courteous responses to your questions. No record is kept of a caller's name.

## Fallacy #3

IRS agents and revenue officers work on commission.

Fact—All IRS employees work for a salary. The amount of money they collect or don't collect is not reflected in their paychecks.

## Fallacy #4

If you wait until April 15th to file your return, your return will probably not be selected for examination.

Fact—The date you mail your return has no effect on whether or not your return will be selected for examination. Tax returns that are examined are selected by using a sophisticated computer system that gives the same treatment to all returns regardless of when they are filed.

## Fallacy #5

If IRS assists you with your return, they won't allow deductions that others would, and your tax will be more.

Fact—IRS personnel will give you the benefit of all allowable deductions you make known to them. If facts and figures remain the same, the correct tax will be identical no matter who prepares the return.

## Fallacy #6

You will definitely owe more tax if your return is examined.

Fact—There are three possible results of an examination: you will owe more tax, you will owe less tax, or there will be no change to your tax. Since the reason most returns are selected for examination is that the return has a good probability of additional tax, many examinations do result in increased tax. However, many taxpayers come away from an examination with an additional refund or with their return requiring no change at all.

## Fallacy #7

When IRS makes a mistake, it never gets corrected.

Fact—If IRS makes a mistake, it is usually corrected by bringing the error to their attention. However, if your attempts to correct the error fail, you should contact the *Problem Resolution Office*. You can do so by calling the IRS, asking specifically for that office. The *Problem Resolution Office* will make sure your problem receives proper attention.

## Fallacy #8

If your tax return is examined once, it will continue to be examined year after year.

Fact—IRS makes a special effort not to examine the same people repeatedly. In fact, IRS has a program called the *Repetitive Examination Procedure*. The purpose of this procedure is to ensure that no taxpayer is examined for two consecutive years on the same issue when the examination of the first year resulted in no change in tax. If a taxpayer in this situation receives an examination letter, he or she should call the person whose name and telephone number appear on the letter. Then IRS can review its files.

## Fallacy #9

If you owe taxes and cannot pay right away, the IRS will seize all your property.

Fact—If you receive a notice from IRS that you owe money, don't ignore it, even if you can't pay right away. Call your IRS office. Depending on the circumstances, arrangements can sometimes be made for installment payments. It is only if a taxpayer ignores notices or defaults on an installment agreement that IRS, as a last resort, will seize property or place a levy on wages. Taxpayers who find that they owe money with their return too often choose not to file. This is also a mistake, as it will result in severe penalties for failure to file on time. Taxpayers should always file on time, even if they cannot pay, and then contact IRS about payment arrangements when the balance due notice arrives.

## Conclusion

These are just a few of the incorrect notions people have about the IRS. Many fallacies about the IRS can be clarified by taxpayers if they take the time to write or call the IRS.

# MODULE 8

## Glossary of Tax Terms

The number in parentheses refers to the module in which the subject is primarily discussed.

**Adjusted gross income (2–II)**

Total gross income reduced by certain adjustments such as the deduction for a married couple when both work, moving expenses, employee business expenses, and alimony paid.

**Casualty and theft losses (2–III)**

A casualty is a loss resulting from a sudden, unexpected, or unusual event such as a fire, storm, or accident. A theft is the unlawful taking of money or property.

**Charitable contributions (2–III)**

Contributions made to qualified organizations. To be qualified, the organization must be operated for certain purposes such as charity, religion, or education.

**Consumer tax (6)**

A sales tax imposed on the buyer at the retail level.

**Consumption taxes (4)**

A tax imposed on using a product or service. The most common are sales and excise taxes.

**Credits (2–II)**

A direct reduction of the tax liability. Credits are allowed for purposes such as political contributions and child care.

**Customs duties (3)**

Taxes imposed on imported goods.

**Dependency tests (2–II)**

Five tests that must be met to claim an exemption for a dependant: Support, Gross Income, Member of Household or Relationship, Citizenship, and Joint Return.

**Dependent (2–II)**

A person other than the taxpayer or his or her spouse. A taxpayer may claim an exemption for a dependent if the five dependency tests are met.

**Dividends (2–I)**

Ordinary dividends are a corporation's distributions to its shareholders from its earnings and profits.

**Earned income**

Income, such as wages, salaries, tips, and self-employment income, that you earn from personal services.

**Earned income credit (2–II)**

A credit for low-income workers with children. This credit may be paid to the worker even if no income tax was withheld from the worker's pay.

**Estate taxes (6)**

A tax on the value of a deceased person's land and other property, which is called his or her "estate." The estate pays the tax.

**Estimated tax (1)**

A periodic payment of tax on income that is not subject to withholding tax, such as self-employment income and prizes.

**Excess itemized deductions (2–III)**

Itemized deductions that are more than the zero bracket amount.

**Excise taxes (4)**

Taxes on the sale or use of particular items, on particular transactions, or on certain businesses.

**Exempt income (2–I)**

Income not included in gross income and, therefore, not taxed.

**Exemption from withholding (1)**

Not required to have income tax withheld. Income tax is not withheld from your wages if you did not have a tax liability last year and do not expect one this year, and if you claim exemption from withholding on your Form W–4.

**Exemptions (2–II)**

There are two kinds of exemptions. Personal exemptions, including exemptions for age and blindness, may be claimed by a taxpayer for himself or herself and for the taxpayer's spouse. Dependency exemptions may be claimed for qualified dependents.

**Filing status (2–II)**

Determines the lowest income for which you must file a return and what tax rate will apply to your taxable income.

**Form W–2 (1)**

The *Wage and Tax Statement* prepared by employers. It shows the employee's wages, withheld income tax, and withheld social security tax.

**Form W–4 (1)**

The *Employee's Withholding Allowance Certificate*. The employee prepares it and gives it to the employer. The number of allowances claimed, together with the amount income earned, determine how much of income tax the employer withholds from wages.

**Forms package (1)**

A package including tax forms, instructions, an address label, and mailing envelope. Every year the Internal Revenue Service sends this package to taxpayers who filed a return the year before.

**Fuel tax (6)**

A use tax that every state imposes on gasoline and diesel fuel.

**Gift taxes**

A tax on the value of land or other property that one person gives to another. The person who gives the gift pays the tax.

**Gross income (2–I)**

All income received that is not exempt from tax.

**House Ways and Means Committee (5)**

The committee in the House of Representatives that has responsibility for revenue, debt, customs, trade, and social security legislation.

**Inheritance taxes (6)**

A state tax on the value of land and other property a person received from a deceased person's estate. The person receiving the property pays the tax.

**Interest expense (2–III)**

A charge you pay for money you borrow.

**Interest income (2–I)**

Income you receive for lending money to someone else.

**Itemized deductions (2–III)**

Specific expenses that can be deducted from adjusted gross income if they total more than the zero bracket amount. They are medical and dental expenses, taxes, interest, charitable contributions, casualty and theft losses, and certain miscellaneous items.

**Legislation (5)**

The act of making laws.

**Married couple deduction (2–II)**

A deduction for working married couples, who file jointly. The deduction is the lesser of: 10% of the lower-paid spouse's income; or $3,000.

**Medical and dental expenses (2–III)**

Amounts that you paid for medical insurance; plus amounts that you paid, and your insurance did not repay, for medical and dental expenses, including prescription medicines and insulin. The amount deductible is limited to the extent these expenses exceed 5% of adjusted gross income.

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**Miscellaneous deductions (2–III)**

Certain business and investment-related expenses such as union dues, uniforms, and magazines.

**Personal property tax (6)**

A tax on property other than real property, such as cars, boats, and tools.

**Progressive tax (6)**

A system under which your tax is a higher percentage of your income if you have a large income than it would be if you had a small income. See *Tax Brackets*, later.

**Real property tax (6)**

A tax on real property (land and buildings) based on the value of the property.

**Revenue (4)**

The income a government receives from taxes and other sources.

**Sales tax (6)**

A consumer tax on the retail sales of goods and services.

**Schedule A (2–III)**

An attachment to Form 1040 on which itemized deductions are listed.

**Self-employment tax**

The social security tax for self-employed persons.

**Senate Finance Committee (5)**

The committee in the Senate that has responsibility for revenue, trade, social security legislation, veterans' affairs, and other financial matters.

**Special withholding allowance (1)**

An extra withholding allowance for a single person who has only one employer, or for a married person who has one employer and whose spouse does not work.

**Student (2–II)**

To qualify as a student, a child must attend school full-time during some part of each of 5 calendar months of the year.

**Tax brackets (6)**

Income groupings by amount. Higher tax rates apply to each increased bracket.

**Tax deductions (2–III)**

Amounts paid for certain taxes are allowed as an itemized deduction. These taxes are state and local income taxes, real estate taxes, general sales tax, and personal property tax.

**Tax liability (2–II)**

The total tax that must be paid.

**Tax rate (6)**

The percentage of tax applied to a bracket of income.

**Tax rate schedules**

The schedules used by taxpayers to determine tax liability when they cannot use the *Tax Table*.

**Tax refund (2–I)**

The excess of tax paid over tax liability. Amount will be refunded if requested on a return.

**Tax Table (2–I)**

The table used to determine tax liability.

**Tax withholding (1)**

Money that an employer withholds from an employee's wages and that the employee applies against tax liability.

**Taxable income (2–II)**

The income on which tax liability is determined.

**Tips (2–I)**

Income given to you voluntarily, or in addition to your wages, for services you perform.

**Use tax (6)**

Similar to a sales tax, but imposed for the use of something. The tax may be imposed on a lease, such as for storage, or the purchase of property not covered by sales tax.

**Vendor tax (6)**

A state tax imposed on a person doing business.

**Wages and salaries (2–II)**

Income you earn by working for an employer.

**Withholding allowance (1)**

Claimed by you on Form W–4. Your employer uses the number of allowances you claim, together with your income earned and filing status, to determine how much income tax to withhold from your wages.

**Zero bracket amount (2–III)**

An income amount, determined by filing status, that is not subject to tax.

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  National Capitol Region
U.S. Department of Transportation
  Federal Aviation Administration
U.S. Department of the Treasury
  Internal Revenue Service
Smithsonian Institution
  National Zoo
Chamber of Commerce of the District of Columbia
Metropolitan Washington Board of Trade
Montgomery County Fire & Rescue Services Department
WTTG-5 Metromedia Television Station

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Biological Science Aide checking the quality of prepared specimen slides for a electronic microscope study.

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Interpretive Guide dressed in period costume on the tow path of the Chesapeake and Ohio Canal, Washington, DC.

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# 1984 Tax Table

**Based on Taxable Income**

**For persons with taxable incomes of less than $50,000.**

**Example:** Mr. and Mrs. Brown are filing a joint return. Their taxable income on line 37 of Form 1040 is $25,325. First, they find the $25,300–25,350 income line. Next, they find the column for married filing jointly and read down the column. The amount shown where the income line and filing status column meet is $3,646. This is the tax amount they must write on line 38 of their return.

| At least | But less than | Single | Married filing jointly * | Married filing sepa-rately | Head of a house-hold |
|---|---|---|---|---|---|
| | | Your tax is— | | | |
| 25,200 | 25,250 | 4,633 | 3,621 | 5,770 | 4,289 |
| 25,250 | 25,300 | 4,648 | 3,634 | 5,789 | 4,303 |
| → 25,300 | 25,350 | 4,663 | 3,646 | 5,808 | 4,317 |
| 25,350 | 25,400 | 4,678 | 3,659 | 5,827 | 4,331 |

| If line 37 (taxable income) is— | | And you are— | | | |
|---|---|---|---|---|---|
| At least | But less than | Single | Married filing jointly * | Married filing sepa-rately | Head of a house-hold |
| | | Your tax is— | | | |
| $0 | $1,700 | $0 | $0 | $0 | $0 |
| 1,700 | 1,725 | 0 | 0 | [a]1 | 0 |
| 1,725 | 1,750 | 0 | 0 | 4 | 0 |
| 1,750 | 1,775 | 0 | 0 | 7 | 0 |
| 1,775 | 1,800 | 0 | 0 | 10 | 0 |
| 1,800 | 1,825 | 0 | 0 | 12 | 0 |
| 1,825 | 1,850 | 0 | 0 | 15 | 0 |
| 1,850 | 1,875 | 0 | 0 | 18 | 0 |
| 1,875 | 1,900 | 0 | 0 | 21 | 0 |
| 1,900 | 1,925 | 0 | 0 | 23 | 0 |
| 1,925 | 1,950 | 0 | 0 | 26 | 0 |
| 1,950 | 1,975 | 0 | 0 | 29 | 0 |
| 1,975 | 2,000 | 0 | 0 | 32 | 0 |
| **2,000** | | | | | |
| 2,000 | 2,025 | 0 | 0 | 34 | 0 |
| 2,025 | 2,050 | 0 | 0 | 37 | 0 |
| 2,050 | 2,075 | 0 | 0 | 40 | 0 |
| 2,075 | 2,100 | 0 | 0 | 43 | 0 |
| 2,100 | 2,125 | 0 | 0 | 45 | 0 |
| 2,125 | 2,150 | 0 | 0 | 48 | 0 |
| 2,150 | 2,175 | 0 | 0 | 51 | 0 |
| 2,175 | 2,200 | 0 | 0 | 54 | 0 |
| 2,200 | 2,225 | 0 | 0 | 56 | 0 |
| 2,225 | 2,250 | 0 | 0 | 59 | 0 |
| 2,250 | 2,275 | 0 | 0 | 62 | 0 |
| 2,275 | 2,300 | 0 | 0 | 65 | 0 |
| 2,300 | 2,325 | [b]1 | 0 | 67 | [b]1 |
| 2,325 | 2,350 | 4 | 0 | 70 | 4 |
| 2,350 | 2,375 | 7 | 0 | 73 | 7 |
| 2,375 | 2,400 | 10 | 0 | 76 | 10 |

| If line 37 (taxable income) is— | | And you are— | | | |
|---|---|---|---|---|---|
| At least | But less than | Single | Married filing jointly * | Married filing sepa-rately | Head of a house-hold |
| | | Your tax is— | | | |
| 2,400 | 2,425 | 12 | 0 | 78 | 12 |
| 2,425 | 2,450 | 15 | 0 | 81 | 15 |
| 2,450 | 2,475 | 18 | 0 | 84 | 18 |
| 2,475 | 2,500 | 21 | 0 | 87 | 21 |
| 2,500 | 2,525 | 23 | 0 | 89 | 23 |
| 2,525 | 2,550 | 26 | 0 | 92 | 26 |
| 2,550 | 2,575 | 29 | 0 | 95 | 29 |
| 2,575 | 2,600 | 32 | 0 | 98 | 32 |
| 2,600 | 2,625 | 34 | 0 | 100 | 34 |
| 2,625 | 2,650 | 37 | 0 | 103 | 37 |
| 2,650 | 2,675 | 40 | 0 | 106 | 40 |
| 2,675 | 2,700 | 43 | 0 | 109 | 43 |
| 2,700 | 2,725 | 45 | 0 | 111 | 45 |
| 2,725 | 2,750 | 48 | 0 | 114 | 48 |
| 2,750 | 2,775 | 51 | 0 | 117 | 51 |
| 2,775 | 2,800 | 54 | 0 | 120 | 54 |
| 2,800 | 2,825 | 56 | 0 | 123 | 56 |
| 2,825 | 2,850 | 59 | 0 | 126 | 59 |
| 2,850 | 2,875 | 62 | 0 | 129 | 62 |
| 2,875 | 2,900 | 65 | 0 | 132 | 65 |
| 2,900 | 2,925 | 67 | 0 | 135 | 67 |
| 2,925 | 2,950 | 70 | 0 | 138 | 70 |
| 2,950 | 2,975 | 73 | 0 | 141 | 73 |
| 2,975 | 3,000 | 76 | 0 | 144 | 76 |
| **3,000** | | | | | |
| 3,000 | 3,050 | 80 | 0 | 149 | 80 |
| 3,050 | 3,100 | 85 | 0 | 155 | 85 |
| 3,100 | 3,150 | 91 | 0 | 161 | 91 |
| 3,150 | 3,200 | 96 | 0 | 167 | 96 |
| 3,200 | 3,250 | 102 | 0 | 173 | 102 |
| 3,250 | 3,300 | 107 | 0 | 179 | 107 |
| 3,300 | 3,350 | 113 | 0 | 185 | 113 |
| 3,350 | 3,400 | 118 | 0 | 191 | 118 |

| If line 37 (taxable income) is— | | And you are— | | | |
|---|---|---|---|---|---|
| At least | But less than | Single | Married filing jointly * | Married filing sepa-rately | Head of a house-hold |
| | | Your tax is— | | | |
| 3,400 | 3,450 | 124 | [c]3 | 197 | 124 |
| 3,450 | 3,500 | 130 | 8 | 203 | 129 |
| 3,500 | 3,550 | 136 | 14 | 209 | 135 |
| 3,550 | 3,600 | 142 | 19 | 215 | 140 |
| 3,600 | 3,650 | 148 | 25 | 221 | 146 |
| 3,650 | 3,700 | 154 | 30 | 227 | 151 |
| 3,700 | 3,750 | 160 | 36 | 233 | 157 |
| 3,750 | 3,800 | 166 | 41 | 239 | 162 |
| 3,800 | 3,850 | 172 | 47 | 245 | 168 |
| 3,850 | 3,900 | 178 | 52 | 252 | 173 |
| 3,900 | 3,950 | 184 | 58 | 259 | 179 |
| 3,950 | 4,000 | 190 | 63 | 266 | 184 |
| **4,000** | | | | | |
| 4,000 | 4,050 | 196 | 69 | 273 | 190 |
| 4,050 | 4,100 | 202 | 74 | 280 | 195 |
| 4,100 | 4,150 | 208 | 80 | 287 | 201 |
| 4,150 | 4,200 | 214 | 85 | 294 | 206 |
| 4,200 | 4,250 | 220 | 91 | 301 | 212 |
| 4,250 | 4,300 | 226 | 96 | 308 | 217 |
| 4,300 | 4,350 | 232 | 102 | 315 | 223 |
| 4,350 | 4,400 | 238 | 107 | 322 | 228 |
| 4,400 | 4,450 | 245 | 113 | 329 | 234 |
| 4,450 | 4,500 | 252 | 118 | 336 | 240 |
| 4,500 | 4,550 | 259 | 124 | 343 | 246 |
| 4,550 | 4,600 | 266 | 129 | 350 | 252 |
| 4,600 | 4,650 | 273 | 135 | 357 | 258 |
| 4,650 | 4,700 | 280 | 140 | 364 | 264 |
| 4,700 | 4,750 | 287 | 146 | 371 | 270 |
| 4,750 | 4,800 | 294 | 151 | 378 | 276 |
| 4,800 | 4,850 | 301 | 157 | 385 | 282 |
| 4,850 | 4,900 | 308 | 162 | 392 | 288 |
| 4,900 | 4,950 | 315 | 168 | 399 | 294 |
| 4,950 | 5,000 | 322 | 173 | 406 | 300 |

*This column must also be used by a qualifying widow(er).

Continued on next page

[a] If your taxable income is exactly $1,700, your tax is zero.
[b] If your taxable income is exactly $2,300, your tax is zero.
[c] If your taxable income is exactly $3,400, your tax is zero.

## 1994 Tax Table (Continued)

| If line 37 (taxable income) is— At least | But less than | And you are— Single | Married filing jointly * | Married filing sepa-rately | Head of a house-hold |
|---|---|---|---|---|---|
| | | Your tax is— | | | |
| **5,000** | | | | | |
| 5,000 | 5,050 | 329 | 179 | 413 | 306 |
| 5,050 | 5,100 | 336 | 184 | 420 | 312 |
| 5,100 | 5,150 | 343 | 190 | 427 | 318 |
| 5,150 | 5,200 | 350 | 195 | 434 | 324 |
| 5,200 | 5,250 | 357 | 201 | 441 | 330 |
| 5,250 | 5,300 | 364 | 206 | 448 | 336 |
| 5,300 | 5,350 | 371 | 212 | 455 | 342 |
| 5,350 | 5,400 | 378 | 217 | 462 | 348 |
| 5,400 | 5,450 | 385 | 223 | 469 | 354 |
| 5,450 | 5,500 | 392 | 228 | 476 | 360 |
| 5,500 | 5,550 | 399 | 234 | 483 | 366 |
| 5,550 | 5,600 | 406 | 240 | 490 | 372 |
| 5,600 | 5,650 | 413 | 246 | 497 | 378 |
| 5,650 | 5,700 | 420 | 252 | 504 | 384 |
| 5,700 | 5,750 | 427 | 258 | 511 | 390 |
| 5,750 | 5,800 | 434 | 264 | 518 | 396 |
| 5,800 | 5,850 | 441 | 270 | 525 | 402 |
| 5,850 | 5,900 | 448 | 276 | 532 | 408 |
| 5,900 | 5,950 | 455 | 282 | 539 | 414 |
| 5,950 | 6,000 | 462 | 288 | 547 | 420 |
| **6,000** | | | | | |
| 6,000 | 6,050 | 469 | 294 | 555 | 426 |
| 6,050 | 6,100 | 476 | 300 | 563 | 432 |
| 6,100 | 6,150 | 483 | 306 | 571 | 438 |
| 6,150 | 6,200 | 490 | 312 | 579 | 444 |
| 6,200 | 6,250 | 497 | 318 | 587 | 450 |
| 6,250 | 6,300 | 504 | 324 | 595 | 456 |
| 6,300 | 6,350 | 511 | 330 | 603 | 462 |
| 6,350 | 6,400 | 518 | 336 | 611 | 468 |
| 6,400 | 6,450 | 525 | 342 | 619 | 474 |
| 6,450 | 6,500 | 532 | 348 | 627 | 480 |
| 6,500 | 6,550 | 539 | 354 | 635 | 487 |
| 6,550 | 6,600 | 546 | 360 | 643 | 494 |
| 6,600 | 6,650 | 554 | 366 | 651 | 501 |
| 6,650 | 6,700 | 561 | 372 | 659 | 508 |
| 6,700 | 6,750 | 569 | 378 | 667 | 515 |
| 6,750 | 6,800 | 576 | 384 | 675 | 522 |
| 6,800 | 6,850 | 584 | 390 | 683 | 529 |
| 6,850 | 6,900 | 591 | 396 | 691 | 536 |
| 6,900 | 6,950 | 599 | 402 | 699 | 543 |
| 6,950 | 7,000 | 606 | 408 | 707 | 550 |
| **7,000** | | | | | |
| 7,000 | 7,050 | 614 | 414 | 715 | 557 |
| 7,050 | 7,100 | 621 | 420 | 723 | 564 |
| 7,100 | 7,150 | 629 | 426 | 731 | 571 |
| 7,150 | 7,200 | 636 | 432 | 739 | 578 |
| 7,200 | 7,250 | 644 | 438 | 747 | 585 |
| 7,250 | 7,300 | 651 | 444 | 755 | 592 |
| 7,300 | 7,350 | 659 | 450 | 763 | 599 |
| 7,350 | 7,400 | 666 | 456 | 771 | 606 |
| 7,400 | 7,450 | 674 | 462 | 779 | 613 |
| 7,450 | 7,500 | 681 | 468 | 787 | 620 |
| 7,500 | 7,550 | 689 | 474 | 795 | 627 |
| 7,550 | 7,600 | 696 | 480 | 803 | 634 |
| 7,600 | 7,650 | 704 | 487 | 811 | 641 |
| 7,650 | 7,700 | 711 | 494 | 819 | 648 |
| 7,700 | 7,750 | 719 | 501 | 827 | 655 |
| 7,750 | 7,800 | 726 | 508 | 835 | 662 |
| 7,800 | 7,850 | 734 | 515 | 843 | 669 |
| 7,850 | 7,900 | 741 | 522 | 851 | 676 |
| 7,900 | 7,950 | 749 | 529 | 859 | 683 |
| 7,950 | 8,000 | 756 | 536 | 867 | 690 |

| If line 37 (taxable income) is— At least | But less than | And you are— Single | Married filing jointly * | Married filing sepa-rately | Head of a house-hold |
|---|---|---|---|---|---|
| | | Your tax is— | | | |
| **8,000** | | | | | |
| 8,000 | 8,050 | 764 | 543 | 875 | 697 |
| 8,050 | 8,100 | 771 | 550 | 884 | 704 |
| 8,100 | 8,150 | 779 | 557 | 893 | 711 |
| 8,150 | 8,200 | 786 | 564 | 902 | 718 |
| 8,200 | 8,250 | 794 | 571 | 911 | 725 |
| 8,250 | 8,300 | 801 | 578 | 920 | 732 |
| 8,300 | 8,350 | 809 | 585 | 929 | 739 |
| 8,350 | 8,400 | 816 | 592 | 938 | 746 |
| 8,400 | 8,450 | 824 | 599 | 947 | 753 |
| 8,450 | 8,500 | 831 | 606 | 956 | 760 |
| 8,500 | 8,550 | 839 | 613 | 965 | 767 |
| 8,550 | 8,600 | 847 | 620 | 974 | 774 |
| 8,600 | 8,650 | 855 | 627 | 983 | 781 |
| 8,650 | 8,700 | 863 | 634 | 992 | 788 |
| 8,700 | 8,750 | 871 | 641 | 1,001 | 795 |
| 8,750 | 8,800 | 879 | 648 | 1,010 | 804 |
| 8,800 | 8,850 | 887 | 655 | 1,019 | 812 |
| 8,850 | 8,900 | 895 | 662 | 1,028 | 821 |
| 8,900 | 8,950 | 903 | 669 | 1,037 | 829 |
| 8,950 | 9,000 | 911 | 676 | 1,046 | 838 |
| **9,000** | | | | | |
| 9,000 | 9,050 | 919 | 683 | 1,055 | 846 |
| 9,050 | 9,100 | 927 | 690 | 1,064 | 855 |
| 9,100 | 9,150 | 935 | 697 | 1,073 | 863 |
| 9,150 | 9,200 | 943 | 704 | 1,082 | 872 |
| 9,200 | 9,250 | 951 | 711 | 1,091 | 880 |
| 9,250 | 9,300 | 959 | 718 | 1,100 | 889 |
| 9,300 | 9,350 | 967 | 725 | 1,109 | 897 |
| 9,350 | 9,400 | 975 | 732 | 1,118 | 906 |
| 9,400 | 9,450 | 983 | 739 | 1,127 | 914 |
| 9,450 | 9,500 | 991 | 746 | 1,136 | 923 |
| 9,500 | 9,550 | 999 | 753 | 1,145 | 931 |
| 9,550 | 9,600 | 1,007 | 760 | 1,154 | 940 |
| 9,600 | 9,650 | 1,015 | 767 | 1,163 | 948 |
| 9,650 | 9,700 | 1,023 | 774 | 1,172 | 957 |
| 9,700 | 9,750 | 1,031 | 781 | 1,181 | 965 |
| 9,750 | 9,800 | 1,039 | 788 | 1,190 | 974 |
| 9,800 | 9,850 | 1,047 | 795 | 1,199 | 982 |
| 9,850 | 9,900 | 1,055 | 802 | 1,208 | 991 |
| 9,900 | 9,950 | 1,063 | 809 | 1,217 | 999 |
| 9,950 | 10,000 | 1,071 | 816 | 1,226 | 1,008 |
| **10,000** | | | | | |
| 10,000 | 10,050 | 1,079 | 823 | 1,235 | 1,016 |
| 10,050 | 10,100 | 1,087 | 830 | 1,244 | 1,025 |
| 10,100 | 10,150 | 1,095 | 837 | 1,254 | 1,033 |
| 10,150 | 10,200 | 1,103 | 844 | 1,265 | 1,042 |
| 10,200 | 10,250 | 1,111 | 851 | 1,276 | 1,050 |
| 10,250 | 10,300 | 1,119 | 858 | 1,287 | 1,059 |
| 10,300 | 10,350 | 1,127 | 865 | 1,298 | 1,067 |
| 10,350 | 10,400 | 1,135 | 872 | 1,309 | 1,076 |
| 10,400 | 10,450 | 1,143 | 879 | 1,320 | 1,084 |
| 10,450 | 10,500 | 1,151 | 886 | 1,331 | 1,093 |
| 10,500 | 10,550 | 1,159 | 893 | 1,342 | 1,101 |
| 10,550 | 10,600 | 1,167 | 900 | 1,353 | 1,110 |
| 10,600 | 10,650 | 1,175 | 907 | 1,364 | 1,118 |
| 10,650 | 10,700 | 1,183 | 914 | 1,375 | 1,127 |
| 10,700 | 10,750 | 1,191 | 921 | 1,386 | 1,135 |
| 10,750 | 10,800 | 1,199 | 928 | 1,397 | 1,144 |
| 10,800 | 10,850 | 1,208 | 935 | 1,408 | 1,152 |
| 10,850 | 10,900 | 1,217 | 942 | 1,419 | 1,161 |
| 10,900 | 10,950 | 1,226 | 949 | 1,430 | 1,169 |
| 10,950 | 11,000 | 1,235 | 956 | 1,441 | 1,178 |

| If line 37 (taxable income) is— At least | But less than | And you are— Single | Married filing jointly * | Married filing sepa-rately | Head of a house-hold |
|---|---|---|---|---|---|
| | | Your tax is— | | | |
| **11,000** | | | | | |
| 11,000 | 11,050 | 1,244 | 963 | 1,452 | 1,186 |
| 11,050 | 11,100 | 1,253 | 970 | 1,463 | 1,195 |
| 11,100 | 11,150 | 1,262 | 977 | 1,474 | 1,203 |
| 11,150 | 11,200 | 1,271 | 984 | 1,485 | 1,212 |
| 11,200 | 11,250 | 1,280 | 991 | 1,496 | 1,220 |
| 11,250 | 11,300 | 1,289 | 998 | 1,507 | 1,229 |
| 11,300 | 11,350 | 1,298 | 1,005 | 1,518 | 1,237 |
| 11,350 | 11,400 | 1,307 | 1,012 | 1,529 | 1,246 |
| 11,400 | 11,450 | 1,316 | 1,019 | 1,540 | 1,254 |
| 11,450 | 11,500 | 1,325 | 1,026 | 1,551 | 1,263 |
| 11,500 | 11,550 | 1,334 | 1,033 | 1,562 | 1,271 |
| 11,550 | 11,600 | 1,343 | 1,040 | 1,573 | 1,280 |
| 11,600 | 11,650 | 1,352 | 1,047 | 1,584 | 1,288 |
| 11,650 | 11,700 | 1,361 | 1,054 | 1,595 | 1,297 |
| 11,700 | 11,750 | 1,370 | 1,061 | 1,606 | 1,305 |
| 11,750 | 11,800 | 1,379 | 1,068 | 1,617 | 1,314 |
| 11,800 | 11,850 | 1,388 | 1,075 | 1,628 | 1,323 |
| 11,850 | 11,900 | 1,397 | 1,082 | 1,639 | 1,332 |
| 11,900 | 11,950 | 1,406 | 1,089 | 1,650 | 1,341 |
| 11,950 | 12,000 | 1,415 | 1,097 | 1,661 | 1,350 |
| **12,000** | | | | | |
| 12,000 | 12,050 | 1,424 | 1,105 | 1,672 | 1,359 |
| 12,050 | 12,100 | 1,433 | 1,113 | 1,683 | 1,368 |
| 12,100 | 12,150 | 1,442 | 1,121 | 1,694 | 1,377 |
| 12,150 | 12,200 | 1,451 | 1,129 | 1,705 | 1,386 |
| 12,200 | 12,250 | 1,460 | 1,137 | 1,716 | 1,395 |
| 12,250 | 12,300 | 1,469 | 1,145 | 1,727 | 1,404 |
| 12,300 | 12,350 | 1,478 | 1,153 | 1,739 | 1,413 |
| 12,350 | 12,400 | 1,487 | 1,161 | 1,751 | 1,422 |
| 12,400 | 12,450 | 1,496 | 1,169 | 1,764 | 1,431 |
| 12,450 | 12,500 | 1,505 | 1,177 | 1,776 | 1,440 |
| 12,500 | 12,550 | 1,514 | 1,185 | 1,789 | 1,449 |
| 12,550 | 12,600 | 1,523 | 1,193 | 1,801 | 1,458 |
| 12,600 | 12,650 | 1,532 | 1,201 | 1,814 | 1,467 |
| 12,650 | 12,700 | 1,541 | 1,209 | 1,826 | 1,476 |
| 12,700 | 12,750 | 1,550 | 1,217 | 1,839 | 1,485 |
| 12,750 | 12,800 | 1,559 | 1,225 | 1,851 | 1,494 |
| 12,800 | 12,850 | 1,568 | 1,233 | 1,864 | 1,503 |
| 12,850 | 12,900 | 1,577 | 1,241 | 1,876 | 1,512 |
| 12,900 | 12,950 | 1,586 | 1,249 | 1,889 | 1,521 |
| 12,950 | 13,000 | 1,596 | 1,257 | 1,901 | 1,530 |
| **13,000** | | | | | |
| 13,000 | 13,050 | 1,606 | 1,265 | 1,914 | 1,539 |
| 13,050 | 13,100 | 1,616 | 1,273 | 1,926 | 1,548 |
| 13,100 | 13,150 | 1,626 | 1,281 | 1,939 | 1,557 |
| 13,150 | 13,200 | 1,636 | 1,289 | 1,951 | 1,566 |
| 13,200 | 13,250 | 1,646 | 1,297 | 1,964 | 1,575 |
| 13,250 | 13,300 | 1,656 | 1,305 | 1,976 | 1,584 |
| 13,300 | 13,350 | 1,666 | 1,313 | 1,989 | 1,593 |
| 13,350 | 13,400 | 1,676 | 1,321 | 2,001 | 1,602 |
| 13,400 | 13,450 | 1,686 | 1,329 | 2,014 | 1,611 |
| 13,450 | 13,500 | 1,696 | 1,337 | 2,026 | 1,620 |
| 13,500 | 13,550 | 1,706 | 1,345 | 2,039 | 1,629 |
| 13,550 | 13,600 | 1,716 | 1,353 | 2,051 | 1,638 |
| 13,600 | 13,650 | 1,726 | 1,361 | 2,064 | 1,647 |
| 13,650 | 13,700 | 1,736 | 1,369 | 2,076 | 1,656 |
| 13,700 | 13,750 | 1,746 | 1,377 | 2,089 | 1,665 |
| 13,750 | 13,800 | 1,756 | 1,385 | 2,101 | 1,674 |
| 13,800 | 13,850 | 1,766 | 1,393 | 2,114 | 1,683 |
| 13,850 | 13,900 | 1,776 | 1,401 | 2,126 | 1,692 |
| 13,900 | 13,950 | 1,786 | 1,409 | 2,139 | 1,701 |
| 13,950 | 14,000 | 1,796 | 1,417 | 2,151 | 1,710 |

*This column must also be used by a qualifying widow(er).

Department of the Treasury - Internal Revenue Service

# 1984 Form 1040EZ Income Tax Return for Single filers with no dependents

OMB No. 1545-0675

**Name & address**

Use the IRS mailing label. If you don't have one, please print:

▶
Print your name above (first, initial, last)
Present home address (number and street)
City, town, or post office, State, and ZIP code

Please print your numbers like this.

1 2 3 4 5 6 7 8 9 0

Social security number ☐☐☐-☐☐-☐☐☐☐

**Presidential Election Campaign Fund**
Check box if you want $1 of your tax to go to this fund. ▶ ☐

| | | Dollars | Cents |
|---|---|---|---|
| **Figure your tax** | 1 Total wages, salaries, and tips. This should be shown in Box 10 of your W-2 form(s). (Attach your W-2 form(s).) 1 | ☐☐,☐☐☐ | .☐☐ |
| | 2 Interest income of $400 or less. If the total is more than $400, you cannot use Form 1040EZ. 2 | ☐☐☐ | .☐☐ |
| Attach Copy B of Form(s) W-2 here | 3 Add line 1 and line 2. This is your adjusted gross income. 3 | ☐☐,☐☐☐ | .☐☐ |
| | 4 Allowable part of your charitable contributions. Complete the worksheet on page 21 of the instruction booklet. Do not enter more than $75. 4 | ☐☐ | .☐☐ |
| | 5 Subtract line 4 from line 3. 5 | ☐☐,☐☐☐ | .☐☐ |
| | 6 Amount of your personal exemption. 6 | 1,000 | .00 |
| | 7 Subtract line 6 from line 5. This is your taxable income. 7 | ☐☐,☐☐☐ | .☐☐ |
| | 8 Enter your Federal income tax withheld. This should be shown in Box 9 of your W-2 form(s). 8 | ☐☐,☐☐☐ | .☐☐ |
| | 9 Use the single column in the tax table on pages 31-36 of the instruction booklet to find the tax on your taxable income on line 7. Enter the amount of tax. 9 | ☐☐,☐☐☐ | .☐☐ |
| **Refund or amount you owe** | 10 If line 8 is larger than line 9, subtract line 9 from line 8. Enter the amount of your refund. 10 | ☐,☐☐☐ | .☐☐ |
| Attach tax payment here | 11 If line 9 is larger than line 8, subtract line 8 from line 9. Enter the amount you owe. Attach check or money order for the full amount, payable to "Internal Revenue Service." 11 | ☐,☐☐☐ | .☐☐ |

**Sign your return**

I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and complete.

Your signature Date

For IRS Use Only—Please do not write in boxes below.

1 2 3 4 5

For Privacy Act and Paperwork Reduction Act Notice, see page 41.

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Department of the Treasury - Internal Revenue Service

1984

# Form 1040EZ Income Tax Return for Single filers with no dependents

OMB No. 1545-0675

**Name & address**

Use the IRS mailing label. If you don't have one, please print:

Please print your numbers like this.

1 2 3 4 5 6 7 8 9 0

▶

Print your name above (first, initial, last)

Present home address (number and street)

City, town, or post office, State, and ZIP code

Social security number

☐☐☐ ☐☐ ☐☐☐☐

**Presidential Election Campaign Fund**
Check box if you want $1 of your tax to go to this fund. ▶ ☐

**Figure your tax**

| | | Dollars | Cents |
|---|---|---|---|
| 1 Total wages, salaries, and tips. This should be shown in Box 10 of your W-2 form(s). (Attach your W-2 form(s).) | 1 | ☐☐,☐☐☐ | .☐☐ |
| 2 Interest income of $400 or less. If the total is more than $400, you cannot use Form 1040EZ. | 2 | ☐☐☐ | .☐☐ |
| 3 Add line 1 and line 2. This is your adjusted gross income. | 3 | ☐☐,☐☐☐ | .☐☐ |
| 4 Allowable part of your charitable contributions. Complete the worksheet on page 21 of the instruction booklet. Do not enter more than $75. | 4 | ☐☐ | .☐☐ |
| 5 Subtract line 4 from line 3. | 5 | ☐☐,☐☐☐ | .☐☐ |
| 6 Amount of your personal exemption. | 6 | 1,000 | .00 |
| 7 Subtract line 6 from line 5. This is your taxable income. | 7 | ☐☐,☐☐☐ | .☐☐ |
| 8 Enter your Federal income tax withheld. This should be shown in Box 9 of your W-2 form(s). | 8 | ☐☐,☐☐☐ | .☐☐ |
| 9 Use the single column in the tax table on pages 31-36 of the instruction booklet to find the tax on your taxable income on line 7. Enter the amount of tax. | 9 | ☐☐,☐☐☐ | .☐☐ |

Attach Copy B of Form(s) W-2 here

**Refund or amount you owe**

Attach tax payment here

| | | | |
|---|---|---|---|
| 10 If line 8 is larger than line 9, subtract line 9 from line 8. Enter the amount of your refund. | 10 | ☐,☐☐☐ | .☐☐ |
| 11 If line 9 is larger than line 8, subtract line 8 from line 9. Enter the amount you owe. Attach check or money order for the full amount, payable to "Internal Revenue Service." | 11 | ☐,☐☐☐ | .☐☐ |

**Sign your return**

I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and complete.

Your signature Date

For IRS Use Only—Please do not write in boxes below.

1 2 3 4 5

BEST COPY AVAILABLE

For Privacy Act and Paperwork Reduction Act Notice, see page 41.

Department of the Treasury—Internal Revenue Service

# 1984 Form 1040A US Individual Income Tax Return

OMB No. 1545-0085

**Step 1**
**Name and address**

Use the IRS mailing label. If you don't have one, print or type:

Your first name and initial (if joint return, also give spouse's name and initial) | Last name | Your social security no.

Present home address (number and street) | Spouse's social security no.

City, town or post office, State, and ZIP code

**Presidential Election Campaign Fund**

Do you want $1 to go to this fund? . . . . . . . . . . . . . . . . . . ☐ Yes ☐ No

If joint return, does your spouse want $1 to go to this fund? ☐ Yes ☐ No

**Step 2**
**Check your filing status**
(Check only one)

1 ☐ Single (See if you can use Form 1040EZ.)

2 ☐ Married filing joint return (even if only one had income)

3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ____

4 ☐ Head of household (with qualifying person). If the qualifying person is your unmarried child but not your dependent, write this child's name here. ____

**Step 3**
**Figure your exemptions**

Always check the exemption box labeled Yourself. Check other boxes if they apply.

5a ☐ Yourself ☐ 65 or over ☐ Blind

b ☐ Spouse ☐ 65 or over ☐ Blind

Write number of boxes checked on 5a and b ____

c First names of your dependent children who lived with you ____

Write number of children listed on 5c + ____

d Other dependents:

Attach Copy B of Form(s) W-2 here

| 1. Name | 2. Relationship | 3. Number of months he lived in your home. | 4. Did dependent have income of $1,000 or more? | 5. Did you provide more than one-half of dependent's support? |
|---|---|---|---|---|
| | | | | |
| | | | | |

Write number of other dependents listed on 5d + ____

e Total number of exemptions claimed. (Also complete line 18.) Add numbers entered on lines above = ____

**Step 4**
**Figure your total income**

6 Total wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) 6 .

7 Interest income. (If the total is over $400, also complete and attach Schedule 1 (Form 1040A), Part I.) 7 .

Attach check or money order here

8a Dividends. (If the total is over $400, also complete and attach Schedule 1 (Form 1040A), Part II.) 8a .

b Exclusion. See the instructions on page 16. 8b .

c Subtract line 8b from line 8a. Write the result. 8c .

9a Unemployment compensation (insurance), from Form(s) 1099-G. Total received. 9a .

b Taxable amount, if any, from the worksheet on page 17 of the instructions. 9b .

10 Add lines 6, 7, 8c, and 9b. Write the total. This is your total income. 10 .

**Step 5**
**Figure your adjusted gross income**

11a Individual retirement arrangement (IRA) deduction, from the worksheet on page 19. 11a .

b Write IRA payments made in 1985 that you included on line 11a: ($ . )

12 Deduction for a married couple when both work. Complete and attach Schedule 1 (Form 1040A), Part III. 12 .

13 Add lines 11a and 12. Write the total. These are your total adjustments. 13 .

14 Subtract line 13 from line 10. Write the result. This is your adjusted gross income. 14

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**1984** **Form 1040A** Page 2

**Step 6**
**Figure your taxable income**

15 Write the amount from line 14. 15 .

16 Allowable part of your charitable contributions, from the worksheet on page 21 of the instructions. 16 .

17 Subtract line 16 from line 15. Write the result. 17 .

18 Multiply $1,000 by the total number of exemptions claimed on line 5e. 18 .

19 Subtract line 18 from line 17. Write the result. This is your taxable income. 19 .

**Step 7**
**Figure your tax, credits, and payments**

***If You Want IRS to Figure Your Tax, See Page 21 of the Instructions.***

20 Find the tax on the amount on line 19. Use the tax table, pages 31–36. 20 .

21a Credit for child and dependent care expenses. Complete and attach Schedule 1 (Form 1040A), Part IV. 21a .

b Partial credit for political contributions for which you have receipts. See page 24 of the instructions. 21b .

22 Add lines 21a and 21b. Write the total. 22 .

23 Subtract line 22 from line 20. Write the result (but not less than zero). This is your total tax. 23 .

24a Total Federal income tax withheld. This should be shown in Box 9 of your W-2 form(s). (If line 6 is more than $37,800, see page 24 of the instructions.) 24a .

b Earned income credit, from the worksheet on page 26 of the instructions. See page 25 of the instructions. 24b .

25 Add lines 24a and 24b. Write the total. These are your total payments. 25 .

**Step 8**
**Figure your refund or amount you owe**

26 If line 25 is larger than line 23, subtract line 23 from line 25. Write the result. This is the amount of your refund. 26 .

27 If line 23 is larger than line 25, subtract line 25 from line 23. Write the result. This is the amount you owe. Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number and "1984 Form 1040A" on it. 27 .

**Step 9**
**Sign your return**

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

| | | |
|---|---|---|
| Your signature<br>X | Date | Your occupation |
| Spouse's signature (if joint return, both must sign)<br>X | Date | Spouse's occupation |
| Paid preparer's signature<br>X | Date | Preparer's social security no. |
| Firm's name (or yours, if self-employed) | | Employer identification no. |
| Address and ZIP code | | Check if self-employed ☐ |

For Privacy Act and Paperwork Reduction Act Notice, see page 41.

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**1984** Department of the Treasury — Internal Revenue Service

# Form 1040A US Individual Income Tax Return

OMB No. 1545-0085

**Step 1**
**Name and address**

Use the IRS mailing label. If you don't have one, print or type:

Your first name and initial (if joint return, also give spouse's name and initial) | Last name | Your social security no.

Present home address (number and street) | Spouse's social security no.

City, town or post office, State, and ZIP code

**Presidential Election Campaign Fund**

Do you want $1 to go to this fund? . . . . . . . . . . . . . . . . . . ☐ Yes ☐ No

If joint return, does your spouse want $1 to go to this fund? ☐ Yes ☐ No

**Step 2**
**Check your filing status**
(Check only one)

1 ☐ Single (See if you can use Form 1040EZ.)

2 ☐ Married filing joint return (even if only one had income)

3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ____________

4 ☐ Head of household (with qualifying person). If the qualifying person is your unmarried child but not your dependent, write this child's name here. ____________

**Step 3**
**Figure your exemptions**

Always check the exemption box labeled Yourself. Check other boxes if they apply.

5a ☐ Yourself ☐ 65 or over ☐ Blind

b ☐ Spouse ☐ 65 or over ☐ Blind

Write number of boxes checked on 5a and b ______

c First names of your dependent children who lived with you ____________

Write number of children listed on 5c + ______

d Other dependents:

| 1. Name | 2. Relationship | 3. Number of months lived in your home. | 4. Did dependent have income of $1,000 or more? | 5. Did you provide more than one-half of dependent's support? |
|---|---|---|---|---|
| | | | | |
| | | | | |

Attach Copy B of Form(s) W-2 here

Write number of other dependents listed on 5d + ______

e Total number of exemptions claimed. (Also complete line 18.)

Add numbers entered on lines above = ______

**Step 4**
**Figure your total income**

6 Total wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) 6 ______ .

7 Interest income. (If the total is over $400, also complete and attach Schedule 1 (Form 1040A), Part I.) 7 ______ .

Attach check or money order here

8a Dividends. (If the total is over $400, also complete and attach Schedule 1 (Form 1040A), Part II.) 8a ______ .

b Exclusion. See the instructions on page 16. 8b ______ .

c Subtract line 8b from line 8a. Write the result. 8c ______ .

9a Unemployment compensation (insurance), from Form(s) 1099-G. Total received. 9a ______ .

b Taxable amount, if any, from the worksheet on page 17 of the instructions. 9b ______ .

10 Add lines 6, 7, 8c, and 9b. Write the total. This is your total income. 10 ______ .

**Step 5**
**Figure your adjusted gross income**

11a Individual retirement arrangement (IRA) deduction, from the worksheet on page 19. 11a ______ .

b Write IRA payments made in 1985 that you included on line 11a: ($ ______ . )

12 Deduction for a married couple when both work. Complete and attach Schedule 1 (Form 1040A), Part III. 12 ______ .

13 Add lines 11a and 12. Write the total. These are your total adjustments. 13 ______ .

14 Subtract line 13 from line 10. Write the result. This is your adjusted gross income. 14 ______ .

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**1984** **Form 1040A**

**Step 6**
**Figure your taxable income**

**15** Write the amount from line 14. 15 .

**16** Allowable part of your charitable contributions, from the worksheet on page 21 of the instructions. 16 .

**17** Subtract line 16 from line 15. Write the result. 17 .

**18** Multiply $1,000 by the total number of exemptions claimed on line 5e. 18 .

**19** Subtract line 18 from line 17. Write the result. This is your **taxable income.** 19 .

**Step 7**
**Figure your tax, credits, and payments**

**If You Want IRS to Figure Your Tax, See Page 21 of the Instructions.**

**20** Find the tax on the amount on line 19. Use the tax table, pages 31–36. 20 .

**21a** Credit for child and dependent care expenses. Complete and attach Schedule 1 (Form 1040A), Part IV. 21a .

**b** Partial credit for political contributions for which you have receipts. See page 24 of the instructions. 21b .

**22** Add lines 21a and 21b. Write the total. 22 .

**23** Subtract line 22 from line 20. Write the result (but not less than zero). This is your **total tax.** 23 .

**24a** Total Federal income tax withheld. This should be shown in Box 9 of your W-2 form(s). (If line 6 is more than $37,800, see page 24 of the instructions.) 24a .

**b** Earned income credit, from the worksheet on page 26 of the instructions. See page 25 of the instructions. 24b .

**25** Add lines 24a and 24b. Write the total. These are your **total payments.** 25 .

**Step 8**
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**26** If line 25 is larger than line 23, subtract line 23 from line 25. Write the result. This is the **amount of your refund.** 26 .

**27** If line 23 is larger than line 25, subtract line 25 from line 23. Write the result. This is the **amount you owe.** Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number and "1984 Form 1040A" on it. 27 .

**Step 9**
**Sign your return**

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature X Date Your occupation

Spouse's signature (if joint return, both must sign) X Date Spouse's occupation

Paid preparer's signature X Date Preparer's social security no.

Firm's name (or yours, if self-employed) Employer identification no.

Address and ZIP code Check if self-employed ☐

For Privacy Act and Paperwork Reduction Act Notice, see page 41.

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## Teacher's Guide

# Understanding Taxes 1985

Department of the Treasury    Internal Revenue Service    Publication 19 (Rev. 11-84)

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# Introduction

**1985 Program**

The 1985 Understanding Taxes program includes material on the preparation of an income tax return, economics, politics, state taxes, and taxpayer rights and responsibilities. The material is divided into modules. Each topic is in a separate module which can stand alone as a lesson. Here is a listing of the module topics.

**Module 1**—Taxpayer Responsibilities and Rights
**Module 2**—How to Prepare An Income Tax Return
**Module 3**—History of Taxation
**Module 4**—Economics of Taxation
**Module 5**—Politics of Taxation
**Module 6**—State Taxes
**Module 7**—Facts and Fallacies About the IRS
**Module 8**—Glossary of Tax Terms
**Module 9**—Current Issues in Taxation

**Program Objectives**

The Understanding Taxes program provides training to help students:

1. Prepare accurate tax returns in the current year and in future years,
2. Understand the role of taxes in our society, and
3. Recognize the importance of our system of voluntary compliance.

**Where to Use Understanding Taxes**

In past years we found that Understanding Taxes was usually taught in business classes, such as bookkeeping, business mathematics, and accounting. With the modular format, this unit has been integrated into a variety of classes. It can make an effective contribution to social science classes, such as history, government, civics, problems of democracy, and economics. Teachers of adult basic education programs also find this unit practical. Because the unit covers a subject affecting all students, teachers are introducing it successfully into courses other than the traditional ones.

**Use of Lesson Plans**

Lesson plans are included in the Teacher's Guide for each module of the student text. Each lesson plan is in outline form and has the following sections:

**Heading**—contains the lesson title corresponding to the module in the student text, a list of training aids and materials, and the instructional objectives for the lesson.

**Content**—contains an introduction to the lesson, the main points to be covered in the module, and a summary. Note that Module 2 also contains problems and answers to problems (on separate pages).

**Notes**—contains special instructions on methods of presentation, when to use training aids, and points that should be emphasized.

**Suggested Activities**—contains various activities which can be integrated into the lesson plan. The basic lesson plans can normally be taught in one class period. The suggested activities can add great interest to the lesson if you have the additional time to conduct them.

**Quizzes and Optional Form 1040 Problem**

Quizzes for Modules 1 through 6 are located at the back of this Teacher's Guide. They can be photocopied for the students. Answers to the quizzes are located on separate pages immediately following the quizzes.

Note that Module 2 in addition to the problems contained in the Student Guide has an optional problem regarding Form 1040. It is located in the Teacher's Guide following the suggested activities for Module 2. Like the quizzes, it can be photocopied for the students. The answer to the optional problem is located at the back of Module 2 along with the answers to the other problems.

**Evaluation Form**

To help improve the quality of the Understanding Taxes Program, the IRS would like each instructor to evaluate the program. Please complete the evaluation form at the back of this guide and return it to the IRS Data Center in the envelope provided.

# Materials to Help You Teach Taxes

**Student Text—Publication 21**

The coursebook for Understanding Taxes looks like the magazine section of a Sunday newspaper. The first eight modules are contained in this publication. Module 9 contains 3 simulation activities and is located only in the Teacher's Guide.

**Form Blow-ups**

Forms W-2, 1040EZ, 1040A, 1040 and Schedule A are available in a blown-up version. They are ideal for large classrooms where transparencies are hard to see. Some teachers put plastic over the figures column and work the problems with a grease pencil.

**Teacher's Guide—Publication 19**

Lesson plans corresponding to each module in the student text have been included to help you teach the course. The suggested lesson plans can be modified depending on the grade and learning ability of your students. Additional activities that can increase the length of the lesson and make the topic more interesting are listed for most modules. Quizzes or problems that can be given at the end of each module are also included in the publication. Answers to the quizzes and problems are also contained in this booklet.

Blank tax forms are included in the back of this book that can be used to make transparencies or additional copies for the class. A grease pencil can be used on the form transparencies to work problems during the class. Some other visuals are also included that you may wish to use as transparencies.

**Reference Books**

A copy of Publication 17, Your Federal Income Tax, is sent to each teacher who orders the Understanding Taxes program material for classroom use. The Forms 1040EZ/1040A and 1040 instruction booklets are available free from your local Internal Revenue Service office as are other free tax publications that can assist you in teaching the course.

**Tax Whys—Understanding Taxes Teachers Guide**

Teachers guide materials on each of the six 15–minute video/film programs provide ideas for classroom introduction and followup. Each lesson includes suggestions for classroom use and a *Commentary: For Your Information* section that is designed to provide additional background for the teacher.

**Films**

The departments of education for the 50 states and the District of Columbia in 1984 cooperatively developed a new classroom film series entitled "Tax Whys—Understanding Taxes". Consisting of six 15–minute programs, the series introduces students to such concepts as the role taxes play in providing goods and services by federal, state and local governments; how taxes influence behavior; how some taxes are shifted from one taxpayer to another; how one can judge how fair a tax is; and how compromises are made to minimize conflicts in tax goals. This series is available free from your department of education.

The Understanding Taxes Coordinator at your IRS district office also has three older films and videotapes in short supply. They are available primarily on video tape, although some district offices also have them in 16mm film. If your school or school district has access to a media center capable of duplicating 16mm or video tape, please contact your Understanding Taxes Coordinator as soon as possible. We can supply videotapes from which to make copies. The duplicate copies may be maintained by your school or school district, which will eliminate the need for ordering the films every year. These older films may be borrowed free of charge by completing the order form at the back of the Ordering Package booklet, Publication 1185. The films are:

**The Subject was Taxes**—portrays the history of taxation from earliest times to the present (16 ½ min.)

**What Happened to My Paycheck?**—examines the modern payroll withholding deduction system and the processing of tax returns (16 ½ min.)

**Money Talks**—looks at the role of taxation in American history (26 min.). Both "Tax Ways—Understanding Taxes" and the three IRS films may be used with Publication 21, *Understanding Taxes—1985* or independently in your curriculum.

### Additional Forms

There are blank forms to reproduce at the back of this Teacher's Guide. Limited numbers of forms may be obtained free from your local IRS office all year and from some post offices and banks, January 1 through April 15. Please identify yourself as an educator and part of the Understanding Taxes program when requesting bulk copies of blank tax forms from your IRS office. Many libraries have a book of forms which can be used to make photocopies.

### How to Order These Aids

You may order these materials by letter or by a telephone call to the Understanding Taxes Coordinator in the Internal Revenue Service district office for your area. The correct mailing address and telephone number for each coordinator are listed on the inside back cover of this booklet.

### Where to File

Tell students when preparing their own returns to use the pre-addressed envelopes that came with their tax packages. If they do not have pre-addressed envelopes or if they moved during the year, tell them to mail their return to the Internal Revenue Service Center for the area where they live. A list of Service Center addresses by states follows:

***Alabama***—Atlanta, GA 31101
***Alaska***—Ogden, UT 84201
***Arizona***—Ogden, UT 84201
***Arkansas***—Austin, TX 73301
***California***—Fresno, CA 93888
***Colorado***—Ogden, UT 84201
***Connecticut***—Andover, MA 05501
***Delaware***—Philadelphia, PA 19255
***District of Columbia***—Philadelphia PA 19255
***Florida***—Atlanta, GA 31101
***Georgia***—Atlanta, GA 31101
***Hawaii***—Fresno, CA 93888
***Idaho***—Ogden, UT 84201
***Illinois***—Kansas City, MO 64999
***Indiana***—Memphis, TN 37501
***Iowa***—Kansas City, MO 64999
***Kansas***—Austin, TX 73301
***Kentucky***—Memphis, TN 37501
***Louisiana***—Austin, TX 73301
***Maine***—Andover, MA 05501
***Maryland***—Philadelphia, PA 19255
***Massachusetts***—Andover, MA 05501
***Michigan***—Cincinnati, OH 45999
***Minnesota***—Ogden, UT 84201
***Mississippi***—Atlanta, GA 31101
***Missouri***—Kansas City, MO 64999
***Montana***—Ogden, UT 84201
***Nebraska***—Ogden, UT 84201
***Nevada***—Ogden, UT 84201
***New Hampshire***—Andover, MA 05501
***New Jersey***—Holtsville, NY 00501
***New Mexico***—Austin, TX 73301
***New York***
*New York City and Counties of Nassau, Rockland, Suffolk, and Westchester*—Holtsville, NY 00501
*All Other Counties*—Andover, MA 05501
***North Carolina***—Memphis, TN 37501
***North Dakota***—Ogden, UT 84201
***Ohio***—Cincinnati, OH 45999
***Oklahoma***—Austin, TX 73301
***Oregon***—Ogden, UT 84201
***Pennsylvania***—Philadelphia, PA 19255
***Rhode Island***—Andover, MA 05501
***South Carolina***—Atlanta, GA 31101
***South Dakota***—Ogden, UT 84201
***Tennessee***—Memphis, TN 37501
***Texas***—Austin, TX 73301
***Utah***—Ogden, UT 84201
***Vermont***—Andover, MA 05501
***Virginia***—Memphis, TN 37501
***Washington***—Ogden, UT 84201
***West Virginia***—Memphis, TN 37501
***Wisconsin***—Kansas City, MO 64999
***Wyoming***—Ogden, UT 84201

| If at the time you file your return you live in: | Use this address: |
|---|---|
| American Samoa | Philadelphia, PA 19255 |
| Guam | Commissioner of Revenue and Taxation<br>Agana, GU 96910 |
| Puerto Rico (or if excluding income under section 933)<br>Virgin Islands:<br>Non-permanent residents | Philadelphia, PA 19255 |

| | |
|---|---|
| Virgin Islands<br>Permanent residents | Department of Finance.<br>Tax Division, Charlotte Amalie, St. Thomas, VI 00801 |
| Foreign country and have an A.P.O. or F.P.O. address | Center for your permanent home state |
| Foreign country<br>U.S. citizen and those excluding income under section 911 or 931 | Philadelphia, PA 19255 |

# Module 1

## Taxpayer Responsibilities and Rights

**Objectives**

At the end of this lesson you will be able to describe:

1. Your responsibilities as a taxpayer
2. The basic steps in fulfilling your responsibilities
3. Your rights as a taxpayer.

**Training Aids**

"What Happened to My Paycheck" film

"Taxes Influence Behavior" from the series **Tax Whys: Understanding Taxes**

**Student Materials**

Publication 21

---

**Content**

### Introduction

This module describes voluntary compliance, taxpayer responsibilities, and the rights to privacy, tax planning, representation, and appeal.

### Development

1. Define voluntary compliance.
2. Basic taxpayer responsibilities
   a. Paying your tax on a pay-as-you-go basis through withholding and estimated tax payments.
   b. Filing your annual tax return by the due date.
   c. Obtaining a social security number.
      1) Purpose of a social security number

         Social Security—keeps a record of earnings under this number then uses the record to determine amount of old age or survivor's benefits.

         IRS—a taxpayer identification number-must appear on all forms or letters a taxpayer sends IRS.

      2) Called FICA tax (Federal Insurance Contributions Act).
      3) How to get a social security number.

         Fill out Form SS-5 which is available through the Social Security Administration.

   d. Filing Form W-4, Employee's Withholding Allowance Certificate.
      1) Worksheet is provided on the back of Form W-4 for calculation of allowances.

**Notes**

Show film, "Taxes Influence Behavior" from the series **Tax Whys: Understanding Taxes.**

You may wish to have a student order SS-5 forms from your local Social Security office for those students in class who do not have numbers, OR

You may wish to have a representative from your local Social Security office come to your class as a guest speaker. This has been done in other classes where the speaker distributed and collected applications for Social Security numbers, then saw that they were processed.

**Content**

2) Allowances

(1) Exemptions

Special rule for dependent children.

(2) Special withholding allowance

Single, one job, or

Single, more than one job but 90% or more of combined total wages is from one job and 10% or less is from other jobs, or

Married, one job, and spouse not working, or

Married, individual or spouse (or both) have more than one job, but 90% or more of combined total wages is from one job and 10% or less is from other jobs.

3) When to file a new Form W–4.

4) Exemption from withholding

No tax liability last year and will not have tax liability in current year.

5) There are penalties for willfully supplying false or fraudulent information.

e. Form W–2, *Wage and Tax Statement*

1) Received from employer by January 31 each year.

2) Copy B must be attached to the Federal Tax Return.

3) Incorrect Form W–2 must be corrected by employer using Form W–2c.

4) Unable to get Form W–2, contact IRS.

f. Estimated Tax Payments

g. Guidelines or assistance for filing a return

1) Hiring professional assistance.

2) Volunteer tax assistance programs—VITA and TCE.

3) File return timely

April 15 for calendar year taxpayers.

4) File with proper service center.

h. Overall Tax Planning

**Notes**

Suggested Exercise: Have students complete two W–4 Forms—one claiming exempt status and one, not exempt. A Form W–4 is included at the back of this Teacher's Guide.

Distribute Forms W–2 to the students. Point out what goes in each block.

Obtain forms from an IRS office.

Suggest showing movie, "What Happened to My Paycheck"

If April 15 falls on Saturday, Sunday or legal holiday, the due date is postponed until the next day that is not a Saturday, Sunday or legal holiday.

The list of Service Centers and addresses is on page 3 of this publication. Tell the students the Service Center address for your area.

**Content**

**Notes**

3. Taxpayer Rights
   - a. Privacy of tax information.
   - b. Routine review of all returns for accuracy.
   - c. Choice of representation during an examination
   - d. The examination process.
   - e. Appeal procedures.
   - f. Unresolved problems come under Problem Resolution Program.
   - g. The collection process.
   - h. The purpose of Criminal Investigations

Mention IRS's reciprocal agreement with states on examined returns.

## Suggested Activities

1. Have students identify other areas of their lives in which voluntary compliance is expected. For each area, identify: the "laws" (if any), unwritten rules that are commonly shared (but are not laws), and the formal and informal penalties imposed. Examples include school behavior (attendance, dress, hallway activity), standing in lines (such as for a movie or rock concert), driving (courtesy in the lane merging, parking tickets, following speed limits, etc.), and registering for the draft.
2. To encourage voluntary compliance and correct self-assessments, IRS handles millions of requests each year for publications which contain answers to specific questions. Have students request at least one publication and research to find an answer to a tax question. In so doing, the students may be more likely to seek information when they themselves become taxpayers.
3. Have students bring in assorted paper documents that include some type of tax or fee, such as paycheck stubs, public utility receipts, license fees, stock dividend receipts, etc. Actual values can be blocked out. There are many other documents that taxpayers must keep on file to back up itemized deductions. Examples of these could also be collected. These could be displayed on a bulletin board.
4. Have students interview at least one taxpayer to find out what their favorite tax break is. Have students ask about how the reduction in taxes affects the amount the person spends for deductible items. Encourage diversity among interviewees by age, occupation, filing status, income, etc. Students should get very different answers according to whom they interview. The answers could be shared in group discussion.

# Module 2

## How To Prepare a Tax Return

## Part I—Form 1040EZ

**Objectives**

At the end of this lesson you will be able to:

1. Determine who must file an income tax return
2. Determine who can use Form 1040EZ
3. Prepare a Form 1040EZ

**Training Aids**

Form 1040EZ blow up

**Student Materials**

Form 1040EZ

Publication 21

| **Content** | **Notes** |
|---|---|
| **Introduction** | |
| This module is divided into three sections. Part I describes the filing requirements for all taxpayers, who can file Form 1040EZ, and how to prepare Form 1040EZ. Part II addresses who may file Form 1040A, correct filing status, exemptions, and how to prepare Form 1040A. Part III provides an introduction to Form 1040. | Show objectives on chalkboard or flipchart. |
| **Development** | |
| 1. Filing requirements | |
| a. Filing status, age and gross income determine a person's filing requirement. | |
| b. Filing status depends on marital status and other factors. | Acknowledge that most students will file as single. |
| c. Gross income includes wages, tips, interest, dividends, and income from self-employment. | |
| d. Certain dividends qualify for an exclusion of up to $100 ($200 on joint returns). | |
| e. Review the filing requirements chart in Pub. 21. | Have students who had income during the year determine if they meet the filing requirements. |
| 2. Who must file a return | |
| 3. Who may file Form 1040EZ | |
| a. Single filing status only. | Most students will be able to use this form. |
| b. Do not claim exemption for age or blindness. | |
| c. Do not claim exemptions for dependents. | |
| d. Income consists only of wages, salaries, tips, and interest (of $400 or less). | |
| e. Taxable income less than $50,000. | |
| 4. Preparing Form 1040EZ | |
| a. In the example, Joe Day is a high school student who worked part-time as a gas station attendant. | Point out that Joe met all the requirements for using the 1040EZ. |
| b. Problem 1 | Have students work Problem 1. Review Problem 1. Answers to all problems are located at end of module. |
| c. The use of the tax table to find appropriate tax on taxable income. | |
| d. Problem 2 | Have students work Problem 2. Review Problem 2. |
| e. In this example, Susan Black is single and works for ABC stores. | Review Example. |
| f. Problem 3 | Have students work Problem 3. Review Problem 3. Use Form 1040EZ blow up. |

# Part II—Form 1040A

**Objectives**

At the end of this lesson you will be able to:

1. Determine who may file Form 1040A
2. Determine a taxpayer's correct filing status and correct number of exemptions.
3. Prepare Form 1040A.

**Training Aids**

Form 1040A blow up

Transparencies

"Taxes Involve Conflicting Goals" from the series **Tax Whys: Understanding Taxes.**

**Student Materials**

Form 1040A

Publication 21

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**Content**

## Introduction

This lesson gives complete, line-by-line instructions for completing Form 1040A. Students will be able to not only prepare their own returns but also the returns of their friends and relatives.

## Development

1. Who may use Form 1040A

   Use Form 1040A if income is:

   —less than $50,000

   —wages, salaries, tips, other compensation

   —interest

   —ordinary dividends

   —unemployment compensation and there is no other reason to use Form 1040

   And deductions are:

   —deduction for an IRA

   —married couple deduction when both work

   —partial deduction for charitable contributions

   And credits are:

   —partial credit for political contributions

   —credit for child and dependent care expenses

   —earned income credit

2. Preparing the Form 1040A
   a. Step 1—Name and Address
      1) Use label from forms package where possible.
      2) Print legibly giving complete information.
   b. Step 2—Check Your Filing Status
      1) Single
      2) Married filing joint return

**Notes**

Show objectives on chalkboard or flipchart.

Show film, "Taxes Involve Conflicting Goals."

Use 1040A blow up to point out that there are no lines for other types of income.

Some students may meet the 1040A exception because of unearned income.

Use 1040A blow up to show various steps and lines on form.

Review requirements for filing each status.

Joint return usually more advantageous than separate return.

| **Content** | **Notes** |
|---|---|
| 3) Married filing separate return | |
| 4) Head of household | |
| 5) Problems 4 through 6. | Have students complete Problems 4 through 6. Review problems. Answers to all problems are located at end of module. |

| **Content** | **Notes** |
|---|---|
| c. Step 3—Figure Your Exemptions | |
| 1) Personal exemptions | |
| 2) Dependency exemptions | Review the five tests—place on flip chart or chalkboard. |
| All 5 dependency tests must be met | |
| a) Support—must supply over half | |
| b) Gross income of dependent—less than $1,000 (Unless under age 19 or a full-time student) | |
| c) Member of household—(all year)<br>or<br>Relationship | |
| d) Citizenship—U.S. Citizen or Resident of U.S., Canada or Mexico. | |
| e) Joint return—cannot claim exemption for dependent if he or she files joint return. (unless filed for refund only). | |
| 3) Problem 7 | Have students complete Problem 7. Review problem. |
| d. Step 4—Figure Your Total Income | |
| 1) Wages | |
| 2) Interest | |
| 3) Ordinary Dividends | |
| Interest or dividends more than $400 must be listed by payer on Schedule 1, Part II, Form 1040A. | |
| 4) Unemployment Compensation | Worksheet is included in Form 1040A Instructions. |
| e. Step 5— Figure Your Adjusted Gross Income | |
| There are two deductions from total income to arrive at AGI. | |
| 1) Deduction for payments to an IRA | |
| 2) Deduction for a married couple when both work—Deduction limited to $3,000. | |
| f. Step 6— Figure Your Taxable Income | |
| There are two deductions from AGI to arrive at taxable income. | |
| 1) Charitable contributions deduction. | |
| 2) Exemptions. | |
| g. Step 7—Figure Your Tax, Credits, and Payments | |
| 1) Use tax table to find the tax on your taxable income before credits. | |

**Content**

**Notes**

2) There are two credits allowed that can reduce the tax: political contributions and the credit for unreimbursed child and dependent care expenses. Use Schedule 1, Part IV, Form 1040A to figure child and dependent care expenses.

3) Advanced EIC payments are added to the tax.

4) There are two payment items: federal income tax withheld and the earned income credit.

| **Content** | **Notes** |
|---|---|
| h. Step 8—Figure Your Refund or Amount You Owe | |
| 1) If payments are larger than tax liability, the taxpayer is due a refund. | |
| 2) If tax liability is larger than payments, the taxpayer must pay amount owed | Review how to pay amount owed. |
| i. Step 9—Sign Your Return | |
| 1) Sign and date return. | |
| 2) Both spouses must sign a joint return. | |
| 3) Paid preparers must complete the requested information. | Mention that there are penalties for preparers who do not follow guidelines. |
| 3. Review of the example involving Jim and Laura Shore | Refer to Figures 2–14, 15, and 16 |
| 4. Problem 8 | Have students work Problem 8. Review problem and answer any questions students may have on Form 1040A. |
| 5. Summary Problems 9–14 | Have students work the summary problems as a summary and a review of the lesson. Review problems. |
| 6. Rounding off dollar amounts | Mention to students that rounding off dollar amounts cuts down on math errors and makes it easier to prepare tax returns. |

## Part III—Form 1040

**Objectives**

At the end of this lesson you will be able to:

1. Know when to prepare a Form 1040
2. Name the types of itemized deductions

**Training Aids**

Form 1040 blow up
Schedule A blow up
Form 1040 instructions
Transparencies
"Taxes Involve Conflicting Goals" film from the series *Tax Whys: Understanding Taxes*

**Student Materials**

Form 1040; Schedule A
Publication 21

| Content | Notes |
|---|---|
| **Introduction**<br>The Form 1040 is an expanded version of Form 1040A. Individuals use Form 1040 because of the types of income they have or deductions and credits they want to claim. | Show objectives on chalkboard or flipchart. |
| **Development** | |
| 1. Know when to prepare the return | |
| a. Identification section same as Form 1040A and you also write in your occupation here. | Throughout this lesson point out similarities to Form 1040A. |
| b. Form 1040 has an additional filing status—qualifying widow(er) with dependent child. | Review requirements for this status.<br>Use 1040 blow up to show this item. |
| c. The rules on exemptions are the same as for Form 1040A. | |
| d. Income section of Form 1040 contains more items than Form 1040A. | Refer to Figure 2–19. |
| e. All taxable income not accounted for elsewhere is entered as other income. | |
| f. Adjustments to income are certain expenses allowed to reduce gross income without itemizing deductions and most are employment-related. | Use 1040 blow up to point out section or refer to Figure 2–19. |
| g. Schedule W must be completed to take the deduction on line 30. | Refer to Figure 2–20 |
| 2. Itemized Deductions. | Review list of itemized deductions. |

**Content**

a. Medical and dental expenses.
b. Taxes
c. Interest expenses
d. Contributions
e. Casualty and theft losses.
f. Miscellaneous deductions.
g. These expenses are deductible in the year paid. Form 1040 tax package contains detailed instructions for claiming deductions.
h. The summary of itemized deductions is computed in the last section of Schedule A.

3. Who Must Itemize

   There are a few exceptions where you as students would be required to itemize deductions.

   a. If you can be claimed as a dependent on your parents' return and you have unearned income of $1,000 or more.
   b. If you are married and filing separately and your spouse itemized.

4. Form 1040. Page 2.
   a. Line 33 is the adjusted gross income.
   b. The excess itemized deductions from Schedule A go on line 34a.
   c. The alternate 25% of charitable contributions is entered on line 34b, or you may use the alternate deduction for charitable contributions when you do not have enough itemized deductions to exceed the ZBA.

5. Credits
   a. Credits reduce your tax dollar for dollar whereas deductions reduce income before it is taxed.
   b. Child and dependent care credit is figured on Form 2441.

**Notes**

Refer to Figure 2-21.

Review deductible and nondeductible items.

Show film, "Taxes Involve Conflicting Goals".

Refer to Figure 2-21. Use the suggested transparency at the end of this module to clarify the concept of "excess itemized deductions".

Inform students that they must use the zero bracket amount unless their itemized deductions exceed this amount.

Refer to Figure 2-22. Note: we do not cover the tax rate schedules in the student guide.

Use 1040 blow up to show credit section or refer to Figure 2-22.

| **Content** | **Notes** |
|---|---|
| 6. Other taxes<br>Adding lines 50 through 55 gives total tax liability on line 56. | |
| 7. Payments section.<br>Estimated tax payments are required by individuals who have taxable income not subject to withholding. | Form 1040-ES contains instructions, a worksheet, and payment voucher. |
| 8. Refund or Amount You Owe<br>a. If total payments on line 64 exceed tax on line 56, this is an overpayment.<br>b. Overpayments can be refunded or credited to next year's as an estimated tax payment.<br>c. If line 64 is less than line 56, additional tax is owed and paid with the tax return.<br>d. You must be sure to sign and date your return.<br>e. If a joint return is filed, you and your spouse must sign. | Refer to Figure 2-22. |
| 9. Amended Return<br>a. If an error was made on the tax return, Form 1040X must be filed to correct it.<br>b. Review time restrictions when amended returns must be filed.<br>1) 3 years from date of original return or<br>2) 2 years from date the tax was paid by you; whichever is later. | |
| **Summary**<br>a. Form 1040 is an expansion of Form 1040EZ and 1040A.<br>b. Many parts of the Form 1040 will not apply to you so they are left blank. Only those entries that apply to you should be made on Form 1040. | Look over the suggested activities section and optional Form 1040 problem, which immediately follow this section. This problem may be photocopied for distribution to students—the answers are provided in this Teacher's Guide following the problems. Review the answers with the students. |

## Suggested Activities

Now that an overview of Form 1040 has been provided, your most interested students may be eager for an opportunity to work problems that test their knowledge. Introduce the new topic, Dividend Exclusion, and discuss the points listed below. Afterwards, optional problems follow that may be assigned for bonus points.

—Dividend Exclusion

Points to Discuss:

1. Generally, the corporation sends Form 1099–DIV to the taxpayer.
2. There is an exclusion of $100 per person if the dividends qualify.

   Factors for qualifying the exclusion:

   a. Dividends must be from a domestic corporation.

   b. Dividends must be from a mutual fund (other than money market funds).

   c. The corporation tells you how much of the dividend qualifies.

See page 14 of Form 1040A Instructions.

## Optional Form 1040 Problem

Harold R. Brick (987-21-1612), single
1700 Meadow Lane
Greentree, Michigan 48200
Harold's occupation: Electrician

| | |
|---|---|
| Harold's Form W-2 | |
| Wages | $15,475 |
| Withholding | $2,137 |
| Interest received | $25 |
| Lottery winning | $1,000 |

His itemized deductions to be listed on Schedule A (Form 1040) are as follows:

Line 5 —Medical - 0
Line 10—Taxes - $1,605
Line 14—Interest - $2,155
Line 18—Contributions - $120
Line 19—Casualty and Theft Losses - 0
Line 23—Miscellaneous Deductions - 0

Complete Schedule A, lines 24, 25 and 26. Find Harold's tax for 1984.

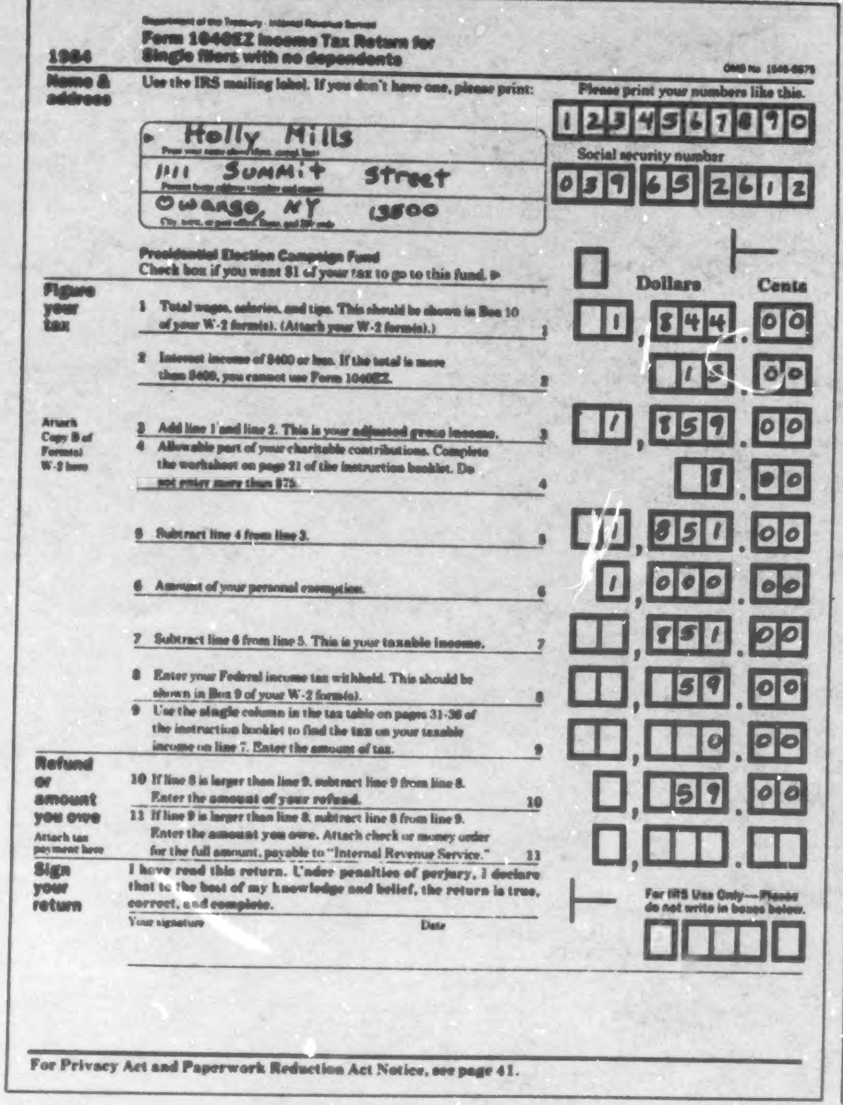
## Answers to Problems

1. See Exhibit 2–A
2.

| Taxable Income | Tax Liability |
|---|---|
| $ 4,952 | $ 322 |
| $ 8,145 | $ 779 |
| $ 8,349 | $ 809 |
| $10,941 | $1,226 |
| $ 9,257 | $ 959 |
| $ 6,650 | $ 561 |

3. See Exhibit 2–B.
4. No
5. Yes
6. Head of Household
7. a. 3
   b. 1
   c. 4
   d. 4
8. See Exhibit 2–C
9. Single; 2
10. Head of Household; 2
11. See Exhibit 2–D
12. See Exhibit 2–E
13. See Exhibit 2–F
14. See Exhibit 2–G

Optional Form 1040 Problem: See Exhibit 2–H.



Department of the Treasury - Internal Revenue Service

1984 **Form 1040EZ Income Tax Return for Single filers with no dependents**

OMB No. 1545-0675

**Name & address** Use the IRS mailing label. If you don't have one, please print:

Please print your numbers like this. 1 2 3 4 5 6 7 8 9 0

Holly Mills
Print your name above (first, initial, last)
1111 Summit Street
Present home address (number and street)
Owango, NY 13500
City, town, or post office, State, and ZIP code

Social security number 039 65 2612

**Presidential Election Campaign Fund**
Check box if you want $1 of your tax to go to this fund. ▶ ☐

| | | Dollars | Cents |
|---|---|---|---|
| **Figure your tax** 1 Total wages, salaries, and tips. This should be shown in Box 10 of your W-2 form(s). (Attach your W-2 form(s).) | 1 | 1,844 | 00 |
| 2 Interest income of $400 or less. If the total is more than $400, you cannot use Form 1040EZ. | 2 | 15 | 00 |
| Attach Copy B of Form(s) W-2 here 3 Add line 1 and line 2. This is your adjusted gross income. | 3 | 1,859 | 00 |
| 4 Allowable part of your charitable contributions. Complete the worksheet on page 21 of the instruction booklet. Do not enter more than $75. | 4 | 8 | 00 |
| 5 Subtract line 4 from line 3. | 5 | 1,851 | 00 |
| 6 Amount of your personal exemption. | 6 | 1,000 | 00 |
| 7 Subtract line 6 from line 5. This is your taxable income. | 7 | 851 | 00 |
| 8 Enter your Federal income tax withheld. This should be shown in Box 9 of your W-2 form(s). | 8 | 59 | 00 |
| 9 Use the single column in the tax table on pages 31-36 of the instruction booklet to find the tax on your taxable income on line 7. Enter the amount of tax. | 9 | 0 | 00 |
| **Refund or amount you owe** 10 If line 8 is larger than line 9, subtract line 9 from line 8. Enter the amount of your refund. | 10 | 59 | 00 |
| Attach tax payment here 11 If line 9 is larger than line 8, subtract line 8 from line 9. Enter the amount you owe. Attach check or money order for the full amount, payable to "Internal Revenue Service." | 11 | | |

**Sign your return** I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and complete.

Your signature Date

For IRS Use Only—Please do not write in boxes below.

For Privacy Act and Paperwork Reduction Act Notice, see page 41.

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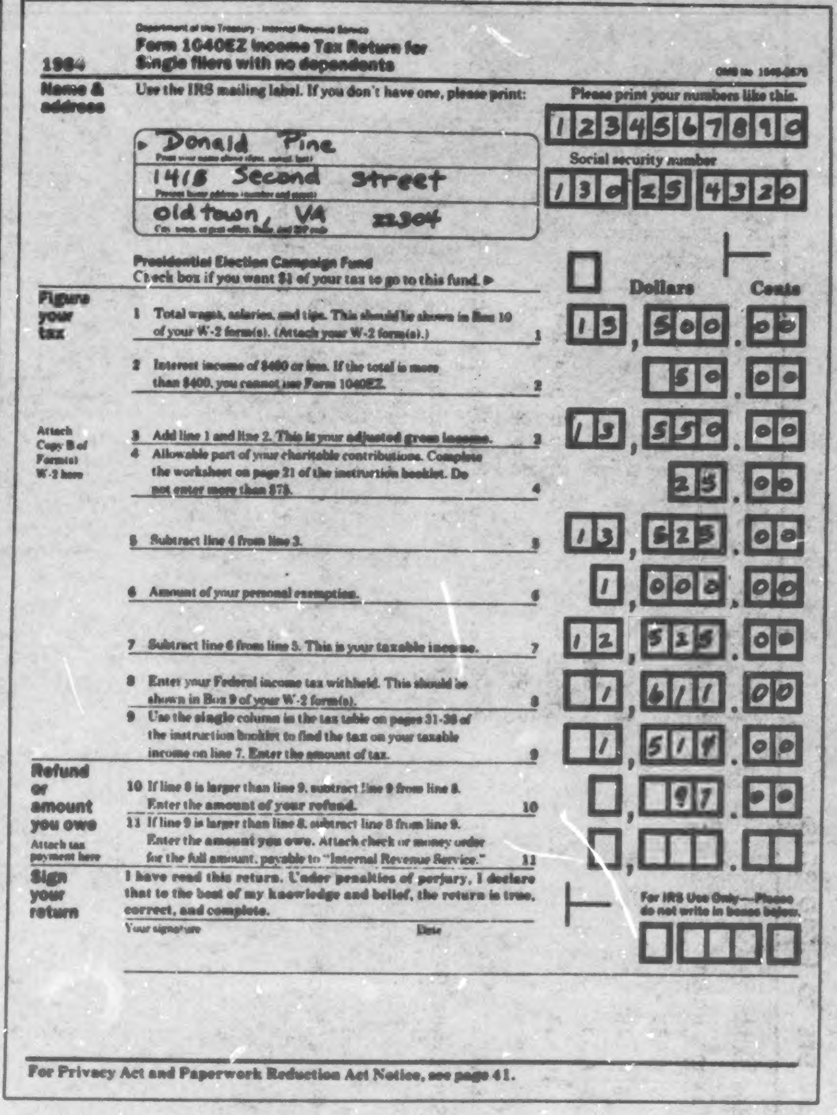


Department of the Treasury - Internal Revenue Service

1984 **Form 1040EZ Income Tax Return for Single filers with no dependents**

OMB No. 1545-0675

**Name & address** Use the IRS mailing label. If you don't have one, please print:

Please print your numbers like this. 1 2 3 4 5 6 7 8 9 0

Donald Pine
Print your name above (first, initial, last)
1418 Second Street
Present home address (number and street)
Old town, VA 22304
City, town, or post office, State, and ZIP code

Social security number 130 25 4320

**Presidential Election Campaign Fund**
Check box if you want $1 of your tax to go to this fund. ▶ ☐

| | | Dollars | Cents |
|---|---|---|---|
| **Figure your tax** 1 Total wages, salaries, and tips. This should be shown in Box 10 of your W-2 form(s). (Attach your W-2 form(s).) | 1 | 13,500 | 00 |
| 2 Interest income of $400 or less. If the total is more than $400, you cannot use Form 1040EZ. | 2 | 50 | 00 |
| Attach Copy B of Form(s) W-2 here 3 Add line 1 and line 2. This is your adjusted gross income. | 3 | 13,550 | 00 |
| 4 Allowable part of your charitable contributions. Complete the worksheet on page 21 of the instruction booklet. Do not enter more than $75. | 4 | 25 | 00 |
| 5 Subtract line 4 from line 3. | 5 | 13,525 | 00 |
| 6 Amount of your personal exemption. | 6 | 1,000 | 00 |
| 7 Subtract line 6 from line 5. This is your taxable income. | 7 | 12,525 | 00 |
| 8 Enter your Federal income tax withheld. This should be shown in Box 9 of your W-2 form(s). | 8 | 1,611 | 00 |
| 9 Use the single column in the tax table on pages 31-36 of the instruction booklet to find the tax on your taxable income on line 7. Enter the amount of tax. | 9 | 1,514 | 00 |
| **Refund or amount you owe** 10 If line 8 is larger than line 9, subtract line 9 from line 8. Enter the amount of your refund. | 10 | 97 | 00 |
| Attach tax payment here 11 If line 9 is larger than line 8, subtract line 8 from line 9. Enter the amount you owe. Attach check or money order for the full amount, payable to "Internal Revenue Service." | 11 | | |

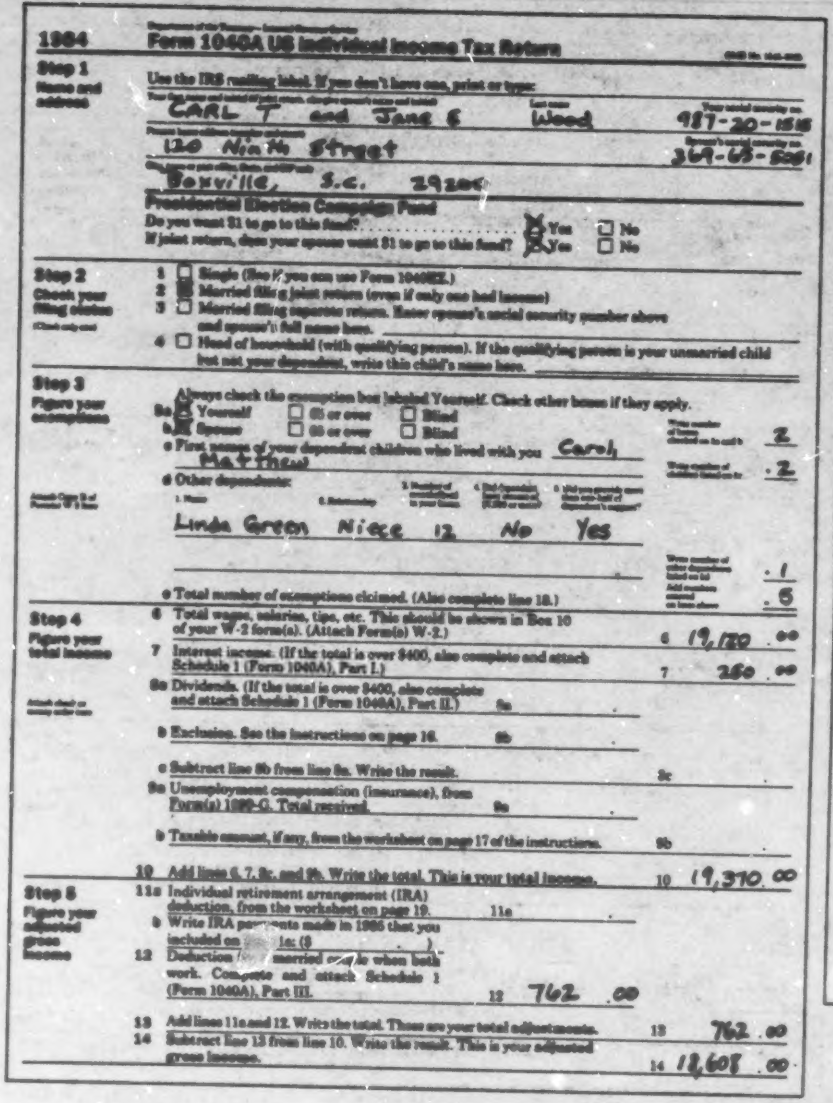
**Sign your return** I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and complete.

Your signature Date

For IRS Use Only—Please do not write in boxes below.

For Privacy Act and Paperwork Reduction Act Notice, see page 41.

BEST COPY AVAILABLE



**1984** **Form 1040A US Individual Income Tax Return**

**Step 1** Name and address

Use the IRS mailing label. If you don't have one, print or type:

CARL T and Jane E Wood — Your social security no. 987-20-1515

120 Ninth Street — Spouse's social security no. 369-65-5061

Boxville, S.C. 29200

**Presidential Election Campaign Fund**

Do you want $1 to go to this fund? ☒ Yes ☐ No

If joint return, does your spouse want $1 to go to this fund? ☒ Yes ☐ No

**Step 2** Check your filing status (Check only one)

1 ☐ Single (See if you can use Form 1040EZ.)

2 ☒ Married filing joint return (even if only one had income)

3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here.

4 ☐ Head of household (with qualifying person). If the qualifying person is your unmarried child but not your dependent, write this child's name here.

**Step 3** Figure your exemptions

Always check the exemption box labeled Yourself. Check other boxes if they apply.

5a ☒ Yourself ☐ 65 or over ☐ Blind

b ☒ Spouse ☐ 65 or over ☐ Blind — Write number of boxes checked on 5a and b: 2

c First names of your dependent children who lived with you Carol, Matthew — Write number of children listed on 5c: 2

d Other dependents:

| 1. Name | 2. Relationship | 3. Number of months lived in your home | 4. Did dependent have income of $1,000 or more? | 5. Did you provide more than one-half of dependent's support? |
|---|---|---|---|---|
| Linda Green | Niece | 12 | No | Yes |

Write number of other dependents listed on 5d: 1

e Total number of exemptions claimed. (Also complete line 18.) — Add numbers entered on lines above: 5

**Step 4** Figure your total income

6 Total wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) — 6 19,120.00

7 Interest income. (If the total is over $400, also complete and attach Schedule 1 (Form 1040A), Part I.) — 7 260.00

8a Dividends. (If the total is over $400, also complete and attach Schedule 1 (Form 1040A), Part II.) — 8a

b Exclusion. See the instructions on page 16. — 8b

c Subtract line 8b from line 8a. Write the result. — 8c

9a Unemployment compensation (insurance), from Form(s) 1099-G. Total received. — 9a

b Taxable amount, if any, from the worksheet on page 17 of the instructions. — 9b

10 Add lines 6, 7, 8c, and 9b. Write the total. This is your total income. — 10 19,370.00

**Step 5** Figure your adjusted gross income

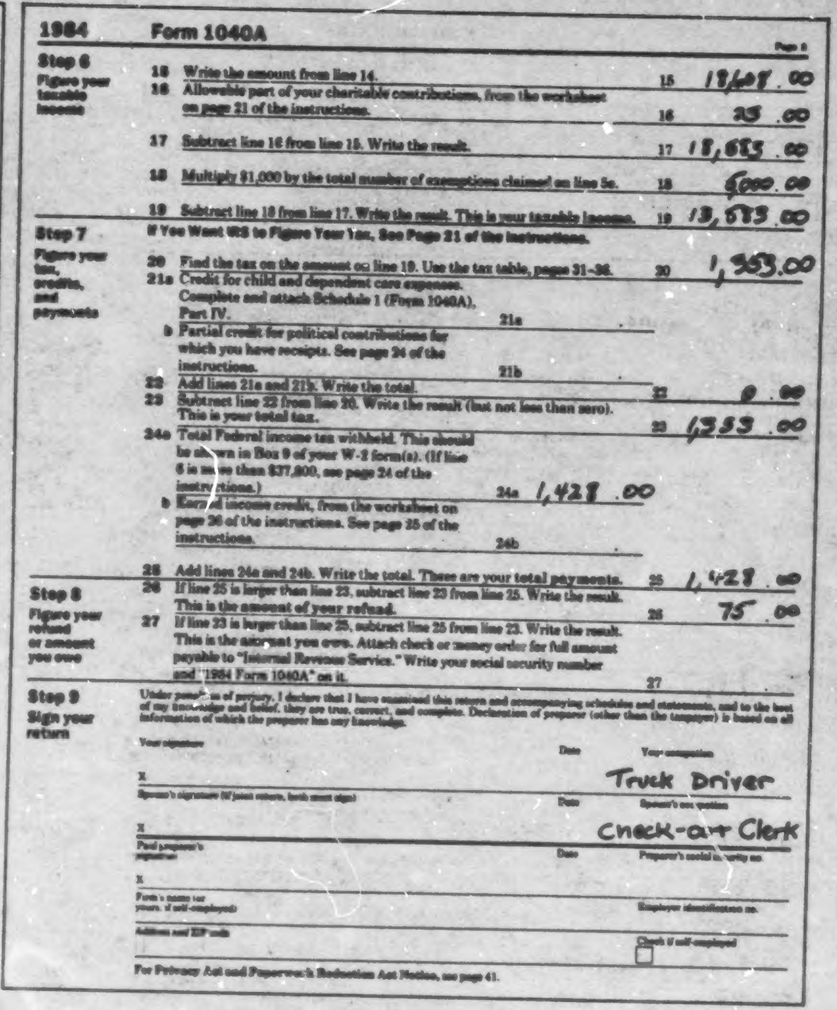
11a Individual retirement arrangement (IRA) deduction, from the worksheet on page 19. — 11a

b Write IRA payments made in 1985 that you included on line 11a: ($ )

12 Deduction for a married couple when both work. Complete and attach Schedule 1 (Form 1040A), Part III. — 12 762.00

13 Add lines 11a and 12. Write the total. These are your total adjustments. — 13 762.00

14 Subtract line 13 from line 10. Write the result. This is your adjusted gross income. — 14 18,608.00



**1984** **Form 1040A** Page 2

**Step 6** Figure your taxable income

15 Write the amount from line 14. — 15 18,608.00

16 Allowable part of your charitable contributions, from the worksheet on page 21 of the instructions. — 16 25.00

17 Subtract line 16 from line 15. Write the result. — 17 18,583.00

18 Multiply $1,000 by the total number of exemptions claimed on line 5e. — 18 5,000.00

19 Subtract line 18 from line 17. Write the result. This is your taxable income. — 19 13,583.00

**Step 7** Figure your tax, credits, and payments

If You Want IRS to Figure Your Tax, See Page 21 of the Instructions.

20 Find the tax on the amount on line 19. Use the tax table, pages 31-36. — 20 1,353.00

21a Credit for child and dependent care expenses. Complete and attach Schedule 1 (Form 1040A), Part IV. — 21a

b Partial credit for political contributions for which you have receipts. See page 24 of the instructions. — 21b

22 Add lines 21a and 21b. Write the total. — 22 0.00

23 Subtract line 22 from line 20. Write the result (but not less than zero). This is your total tax. — 23 1,353.00

24a Total Federal income tax withheld. This should be shown in Box 9 of your W-2 form(s). (If line 6 is more than $37,800, see page 24 of the instructions.) — 24a 1,428.00

b Earned income credit, from the worksheet on page 26 of the instructions. See page 25 of the instructions. — 24b

25 Add lines 24a and 24b. Write the total. These are your total payments. — 25 1,428.00

**Step 8** Figure your refund or amount you owe

26 If line 25 is larger than line 23, subtract line 23 from line 25. Write the result. This is the amount of your refund. — 26 75.00

27 If line 23 is larger than line 25, subtract line 25 from line 23. Write the result. This is the amount you owe. Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number and "1984 Form 1040A" on it. — 27

**Step 9** Sign your return

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature X — Date — Your occupation Truck Driver

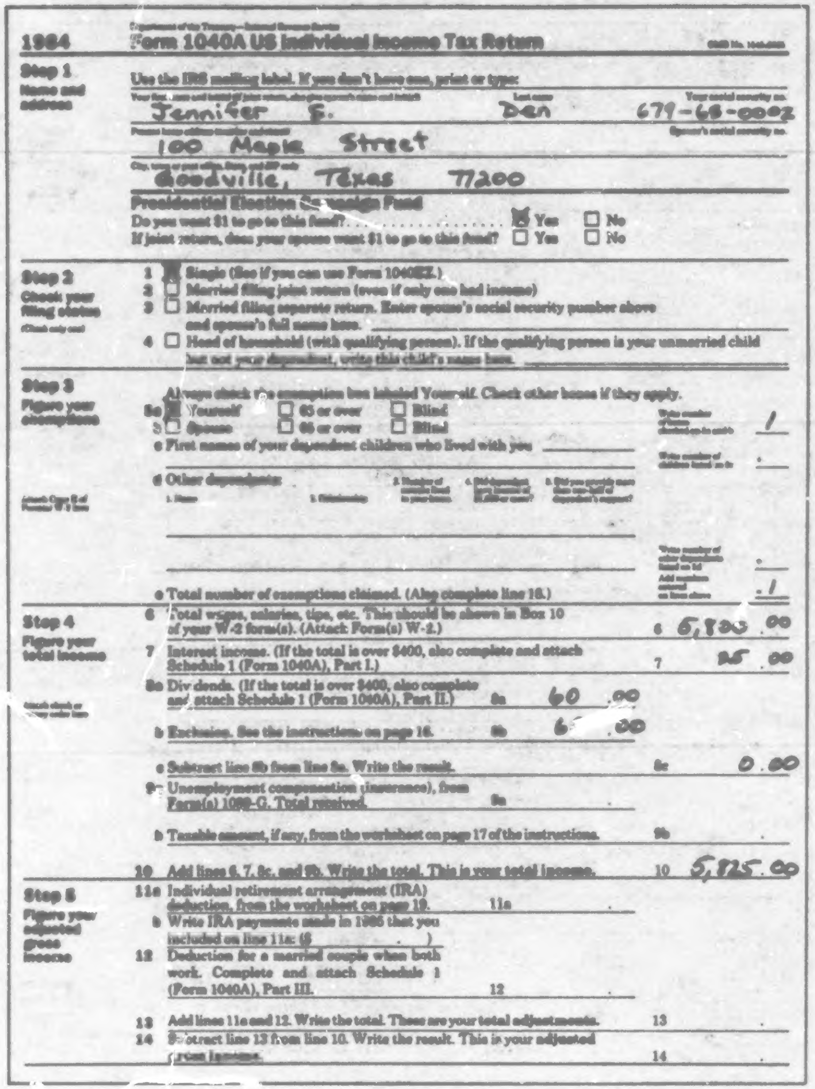
Spouse's signature (if joint return, both must sign) X — Date — Spouse's occupation Check-out Clerk

Paid preparer's signature X — Date — Preparer's social security no.

Firm's name (or yours, if self-employed) — Employer identification no.

Address and ZIP code — Check if self-employed ☐

For Privacy Act and Paperwork Reduction Act Notice, see page 41.



1984 Department of the Treasury—Internal Revenue Service

**Form 1040A US Individual Income Tax Return**

**Step 1** Name and address

Use the IRS mailing label. If you don't have one, print or type:

Jennifer E. — Last name: Den — Your social security no.: 679-68-0002

100 Maple Street — Spouse's social security no.

Goodville, Texas 77200

**Presidential Election Campaign Fund**

Do you want $1 to go to this fund? ☒ Yes ☐ No

If joint return, does your spouse want $1 to go to this fund? ☐ Yes ☐ No

**Step 2** Check your filing status (Check only one)

1 ☒ Single (See if you can use Form 1040EZ.)

2 ☐ Married filing joint return (even if only one had income)

3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here.

4 ☐ Head of household (with qualifying person). If the qualifying person is your unmarried child but not your dependent, write this child's name here.

**Step 3** Figure your exemptions

Always check the exemption box labeled Yourself. Check other boxes if they apply.

5a ☒ Yourself ☐ 65 or over ☐ Blind — Write number of boxes checked on 5a and b: 1

b ☐ Spouse ☐ 65 or over ☐ Blind

c First names of your dependent children who lived with you — Write number of children listed on 5c

d Other dependents: 1. Name 2. Relationship 3. Number of months lived in your home 4. Did dependent have income of $1,000 or more? 5. Did you provide more than one-half of dependent's support? — Write number of other dependents listed on 5d

Attach Copy B of Form(s) W-2 here

e Total number of exemptions claimed. (Also complete line 18.) — Add numbers entered on lines above: 1

**Step 4** Figure your total income

6 Total wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) — 6: 5,800.00

7 Interest income. (If the total is over $400, also complete and attach Schedule 1 (Form 1040A), Part I.) — 7: 25.00

8a Dividends. (If the total is over $400, also complete and attach Schedule 1 (Form 1040A), Part II.) — 8a: 60.00

Attach check or money order here

b Exclusion. See the instructions on page 16. — 8b: 6[illegible].00

c Subtract line 8b from line 8a. Write the result. — 8c: 0.00

9a Unemployment compensation (insurance), from Form(s) 1099-G. Total received. — 9a

b Taxable amount, if any, from the worksheet on page 17 of the instructions. — 9b

10 Add lines 6, 7, 8c, and 9b. Write the total. This is your total income. — 10: 5,825.00

**Step 5** Figure your adjusted gross income

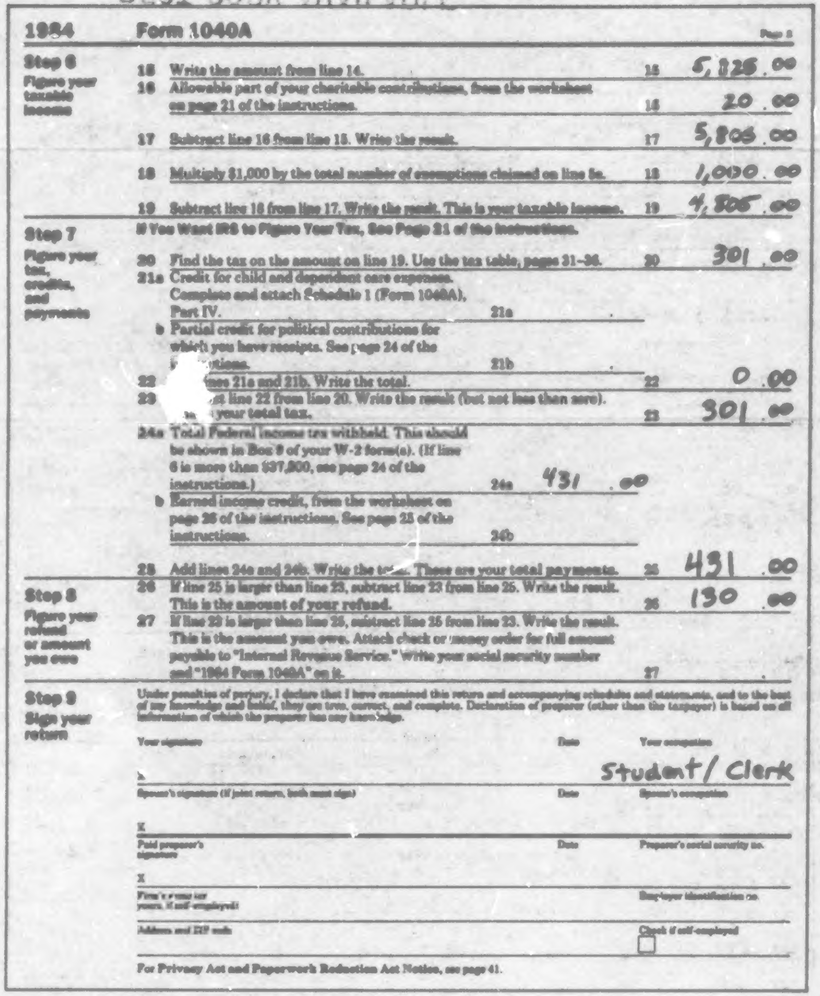
11a Individual retirement arrangement (IRA) deduction, from the worksheet on page 19. — 11a

b Write IRA payments made in 1985 that you included on line 11a: ($ . )

12 Deduction for a married couple when both work. Complete and attach Schedule 1 (Form 1040A), Part III. — 12

13 Add lines 11a and 12. Write the total. These are your total adjustments. — 13

14 Subtract line 13 from line 10. Write the result. This is your adjusted gross income. — 14



1984 **Form 1040A** Page 2

**Step 6** Figure your taxable income

15 Write the amount from line 14. — 15: 5,825.00

16 Allowable part of your charitable contributions, from the worksheet on page 21 of the instructions. — 16: 20.00

17 Subtract line 16 from line 15. Write the result. — 17: 5,805.00

18 Multiply $1,000 by the total number of exemptions claimed on line 5e. — 18: 1,000.00

19 Subtract line 18 from line 17. Write the result. This is your taxable income. — 19: 4,805.00

**Step 7** Figure your tax, credits, and payments

**If You Want IRS to Figure Your Tax, See Page 21 of the Instructions.**

20 Find the tax on the amount on line 19. Use the tax table, pages 31–36. — 20: 301.00

21a Credit for child and dependent care expenses. Complete and attach Schedule 1 (Form 1040A), Part IV. — 21a

b Partial credit for political contributions for which you have receipts. See page 24 of the instructions. — 21b

22 Add lines 21a and 21b. Write the total. — 22: 0.00

23 Subtract line 22 from line 20. Write the result (but not less than zero). This is your total tax. — 23: 301.00

24a Total Federal income tax withheld. This should be shown in Box 9 of your W-2 form(s). (If line 6 is more than $37,800, see page 24 of the instructions.) — 24a: 431.00

b Earned income credit, from the worksheet on page 26 of the instructions. See page 25 of the instructions. — 24b

25 Add lines 24a and 24b. Write the total. These are your total payments. — 25: 431.00

**Step 8** Figure your refund or amount you owe

26 If line 25 is larger than line 23, subtract line 23 from line 25. Write the result. This is the amount of your refund. — 26: 130.00

27 If line 23 is larger than line 25, subtract line 25 from line 23. Write the result. This is the amount you owe. Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number and "1984 Form 1040A" on it. — 27

**Step 9** Sign your return

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature — Date — Your occupation: Student/ Clerk

X

Spouse's signature (if joint return, both must sign) — Date — Spouse's occupation

X

Paid preparer's signature — Date — Preparer's social security no.

X

Firm's name (or yours, if self-employed) — Employer identification no.

Address and ZIP code — Check if self-employed ☐

For Privacy Act and Paperwork Reduction Act Notice, see page 41.

Department of the Treasury—Internal Revenue Service

**1984** **Form 1040A US Individual Income Tax Return** OMB No. [illegible]

**Step 1**
**Name and address**

Use the IRS mailing label. If you don't have one, print or type:

Your first name and initial (if joint return, also give spouse's name and initial) — Last name — Your social security no.

Daniel C. Green 535-65-8282

Spouse's social security no.

Present home address (number and street)

1050 Oak Street

City, town or post office, State, and ZIP code

Boom Town, Kansas 67100

**Presidential Election Campaign Fund**

Do you want $1 to go to this fund? ☒ Yes ☐ No

If joint return, does your spouse want $1 to go to this fund? ☐ Yes ☐ No

**Step 2**
**Check your filing status**
(Check only one)

1 ☒ Single (See if you can use Form 1040EZ.)

2 ☐ Married filing joint return (even if only one had income)

3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here.

4 ☐ Head of household (with qualifying person). If the qualifying person is your unmarried child but not your dependent, write this child's name here.

**Step 3**
**Figure your exemptions**

Always check the exemption box labeled Yourself. Check other boxes if they apply.

5a ☒ Yourself ☐ 65 or over ☐ Blind

b ☐ Spouse ☐ 65 or over ☐ Blind

Write number of boxes checked on 5a and b: 1

c First names of your dependent children who lived with you

Write number of children listed on 5c: .

d Other dependents:

| 1. Name | 2. Relationship | 3. Number of months lived in your home | 4. Did dependent have income of $1,000 or more? | 5. Did you provide more than one-half of dependent's support? |
|---|---|---|---|---|
| | | | | |
| | | | | |

Attach Copy B of Form(s) W-2 here

Write number of other dependents listed on 5d: .

e Total number of exemptions claimed. (Also complete line 18.)

Add numbers entered on lines above: 1

**Step 4**
**Figure your total income**

6 Total wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) — 6 — 9,622.00

7 Interest income. (If the total is over $400, also complete and attach Schedule 1 (Form 1040A), Part I.) — 7 — 10.00

8a Dividends. (If the total is over $400, also complete and attach Schedule 1 (Form 1040A), Part II.) — 8a — 147.00

Attach check or money order here

b Exclusion. See the instructions on page 16. — 8b — 100.00

c Subtract line 8b from line 8a. Write the result. — 8c — 47.00

9a Unemployment compensation (insurance), from Form(s) 1099-G. Total received. — 9a — .

b Taxable amount, if any, from the worksheet on page 17 of the instructions. — 9b — .

10 Add lines 6, 7, 8c, and 9b. Write the total. This is your total income. — 10 — 9,679.00

**Step 5**
**Figure your adjusted gross income**

11a Individual retirement arrangement (IRA) deduction, from the worksheet on page 19. — 11a — .

b Write IRA payments made in 1985 that you included on line 11a: ($ . )

12 Deduction for a married couple when both work. Complete and attach Schedule 1 (Form 1040A), Part III. — 12 — .

13 Add lines 11a and 12. Write the total. These are your total adjustments. — 13 — 0.00

14 Subtract line 13 from line 10. Write the result. This is your adjusted gross income. — 14 — 9,679.00

---

**1984** **Form 1040A** Page 2

**Step 6**
**Figure your taxable income**

15 Write the amount from line 14. — 15 — 9,679.00

16 Allowable part of your charitable contributions, from the worksheet on page 21 of the instructions. — 16 — 0.00

17 Subtract line 16 from line 15. Write the result. — 17 — 9,679.00

18 Multiply $1,000 by the total number of exemptions claimed on line 5e. — 18 — 1,000.00

19 Subtract line 18 from line 17. Write the result. This is your taxable income. — 19 — 8,679.00

**Step 7**
**Figure your tax, credits, and payments**

**If You Want IRS to Figure Your Tax, See Page 21 of the Instructions.**

20 Find the tax on the amount on line 19. Use the tax table, pages 31–36. — 20 — 863.00

21a Credit for child and dependent care expenses. Complete and attach Schedule 1 (Form 1040A), Part IV. — 21a — .

b Partial credit for political contributions for which you have receipts. See page 24 of the instructions. — 21b — .

22 Add lines 21a and 21b. Write the total. — 22 — 0.00

23 Subtract line 22 from line 20. Write the result (but not less than zero). This is your total tax. — 23 — 863.00

24a Total Federal income tax withheld. This should be shown in Box 9 of your W-2 form(s). (If line 6 is more than $37,800, see page 34 of the instructions.) — 24a — 1186.00

b Earned income credit, from the worksheet on page 26 of the instructions. See page 25 of the instructions. — 24b — .

25 Add lines 24a and 24b. Write the total. These are your total payments. — 25 — 1,186.00

**Step 8**
**Figure your refund or amount you owe**

26 If line 25 is larger than line 23, subtract line 23 from line 25. Write the result. This is the amount of your refund. — 26 — 323.00

27 If line 23 is larger than line 25, subtract line 25 from line 23. Write the result. This is the amount you owe. Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number and "1984 Form 1040A" on it. — 27 — .

**Step 9**
**Sign your return**

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature — Date — Your occupation

X — Delivery Man

Spouse's signature (if joint return, both must sign) — Date — Spouse's occupation

X

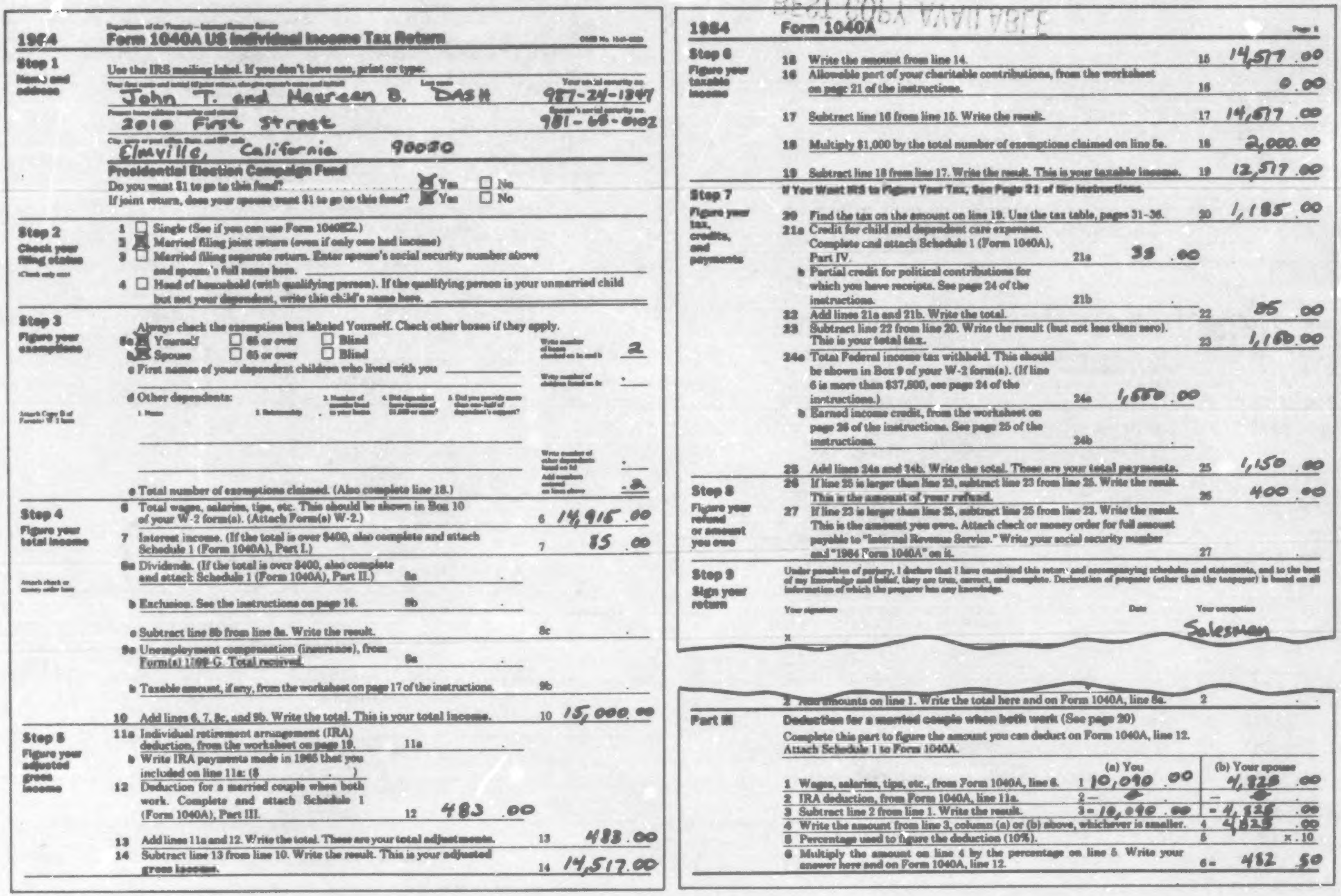
Paid preparer's signature — Date — Preparer's social security no.

X

Firm's name (or yours, if self-employed) — Employer identification no.

Address and ZIP code — Check if self-employed ☐

For Privacy Act and Paperwork Reduction Act Notice, see page 41.



Department of the Treasury – Internal Revenue Service

**1984** **Form 1040A US Individual Income Tax Return** OMB No. 1545-0085

**Step 1** Name and address

Use the IRS mailing label. If you don't have one, print or type:

Your first name and initial (if joint return, also give spouse's name and initial) / Last name / Your social security no.

John T. and Maureen B. DASH 987-24-1847

Present home address (number and street) / Spouse's social security no.

2010 First Street 981-65-0102

City, town or post office, State, and ZIP code

Elmville, California 90030

**Presidential Election Campaign Fund**

Do you want $1 to go to this fund? ☒ Yes ☐ No

If joint return, does your spouse want $1 to go to this fund? ☒ Yes ☐ No

**Step 2** Check your filing status (Check only one)

1 ☐ Single (See if you can use Form 1040EZ.)

2 ☒ Married filing joint return (even if only one had income)

3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here.

4 ☐ Head of household (with qualifying person). If the qualifying person is your unmarried child but not your dependent, write this child's name here.

**Step 3** Figure your exemptions

Always check the exemption box labeled Yourself. Check other boxes if they apply.

5a ☒ Yourself ☐ 65 or over ☐ Blind

b ☒ Spouse ☐ 65 or over ☐ Blind

Write number of boxes checked on 5a and b: 2

c First names of your dependent children who lived with you

Write number of children listed on 5c: .

d Other dependents: 1. Name 2. Relationship 3. Number of months lived in your home 4. Did dependent have income of $1,000 or more? 5. Did you provide more than one-half of dependent's support?

Attach Copy B of Form(s) W-2 here

Write number of other dependents listed on 5d: .

e Total number of exemptions claimed. (Also complete line 18.)

Add numbers entered on lines above: 2

**Step 4** Figure your total income

6 Total wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) 6 14,915 .00

7 Interest income. (If the total is over $400, also complete and attach Schedule 1 (Form 1040A), Part I.) 7 85 .00

8a Dividends. (If the total is over $400, also complete and attach Schedule 1 (Form 1040A), Part II.) 8a .

Attach check or money order here

b Exclusion. See the instructions on page 16. 8b .

c Subtract line 8b from line 8a. Write the result. 8c .

9a Unemployment compensation (insurance), from Form(s) 1099-G. Total received. 9a .

b Taxable amount, if any, from the worksheet on page 17 of the instructions. 9b .

10 Add lines 6, 7, 8c, and 9b. Write the total. This is your total income. 10 15,000.00

**Step 5** Figure your adjusted gross income

11a Individual retirement arrangement (IRA) deduction, from the worksheet on page 19. 11a .

b Write IRA payments made in 1985 that you included on line 11a: ($ . )

12 Deduction for a married couple when both work. Complete and attach Schedule 1 (Form 1040A), Part III. 12 483 .00

13 Add lines 11a and 12. Write the total. These are your total adjustments. 13 483 .00

14 Subtract line 13 from line 10. Write the result. This is your adjusted gross income. 14 14,517.00

**1984** **Form 1040A** Page 2

**Step 6** Figure your taxable income

15 Write the amount from line 14. 15 14,517 .00

16 Allowable part of your charitable contributions, from the worksheet on page 21 of the instructions. 16 0.00

17 Subtract line 16 from line 15. Write the result. 17 14,517 .00

18 Multiply $1,000 by the total number of exemptions claimed on line 5e. 18 2,000.00

19 Subtract line 18 from line 17. Write the result. This is your taxable income. 19 12,517 .00

**Step 7** Figure your tax, credits, and payments

If You Want IRS to Figure Your Tax, See Page 21 of the Instructions.

20 Find the tax on the amount on line 19. Use the tax table, pages 31–36. 20 1,185 .00

21a Credit for child and dependent care expenses. Complete and attach Schedule 1 (Form 1040A), Part IV. 21a 35 .00

b Partial credit for political contributions for which you have receipts. See page 24 of the instructions. 21b .

22 Add lines 21a and 21b. Write the total. 22 35 .00

23 Subtract line 22 from line 20. Write the result (but not less than zero). This is your total tax. 23 1,150.00

24a Total Federal income tax withheld. This should be shown in Box 9 of your W-2 form(s). (If line 6 is more than $37,800, see page 24 of the instructions.) 24a 1,550.00

b Earned income credit, from the worksheet on page 26 of the instructions. See page 25 of the instructions. 24b .

25 Add lines 24a and 24b. Write the total. These are your total payments. 25 1,150 .00

**Step 8** Figure your refund or amount you owe

26 If line 25 is larger than line 23, subtract line 23 from line 25. Write the result. This is the amount of your refund. 26 400 .00

27 If line 23 is larger than line 25, subtract line 25 from line 23. Write the result. This is the amount you owe. Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number and "1984 Form 1040A" on it. 27 .

**Step 9** Sign your return

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature / Date / Your occupation

x Salesman

2 Add amounts on line 1. Write the total here and on Form 1040A, line 8a. 2 .

**Part III** **Deduction for a married couple when both work (See page 20)**

Complete this part to figure the amount you can deduct on Form 1040A, line 12. Attach Schedule 1 to Form 1040A.

| | (a) You | (b) Your spouse |
|---|---|---|
| 1 Wages, salaries, tips, etc., from Form 1040A, line 6. | 1 10,090 .00 | 4,825 .00 |
| 2 IRA deduction, from Form 1040A, line 11a. | 2 – 0 . | – 0 . |
| 3 Subtract line 2 from line 1. Write the result. | 3 = 10,090 .00 | = 4,825 .00 |
| 4 Write the amount from line 3, column (a) or (b) above, whichever is smaller. | | 4 4,825 .00 |
| 5 Percentage used to figure the deduction (10%). | | 5 x .10 |
| 6 Multiply the amount on line 4 by the percentage on line 5. Write your answer here and on Form 1040A, line 12. | | 6 = 482 .50 |

**1984** Department of the Treasury—Internal Revenue Service

## Form 1040A US Individual Income Tax Return

OMB No. [illegible]

**Step 1 Name and address**

Use the IRS mailing label. If you don't have one, print or type:

Your first name and initial (if joint return, also give spouse's name and initial): Walter T. and Frances F. Last name: HALL Your social security no.: 333-65-3888

Present home address (number and street): 1411 37th Street Spouse's social security no.: 987-40-4444

City, town or post office, State, and ZIP code: Oakton, Oregon 97200

**Presidential Election Campaign Fund**

Do you want $1 to go to this fund? ☒ Yes ☐ No

If joint return, does your spouse want $1 to go to this fund? ☒ Yes ☐ No

**Step 2 Check your filing status** (Check only one)

1 ☐ Single (See if you can use Form 1040EZ.)

2 ☒ Married filing joint return (even if only one had income)

3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ______

4 ☐ Head of household (with qualifying person). If the qualifying person is your unmarried child but not your dependent, write this child's name here. ______

**Step 3 Figure your exemptions**

Always check the exemption box labeled Yourself. Check other boxes if they apply.

5a ☒ Yourself ☐ 65 or over ☐ Blind

b ☒ Spouse ☐ 65 or over ☐ Blind

Write number of boxes checked on 5a and b: 2

c First names of your dependent children who lived with you Russell

Write number of children listed on 5c: 1

d Other dependents: 1. Name 2. Relationship 3. Number of months lived in your home 4. Did dependent have income of $1,000 or more? 5. Did you provide more than one-half of dependent's support?

Attach Copy B of Form(s) W-2 here

Write number of other dependents listed on 5d: 1

e Total number of exemptions claimed. (Also complete line 18.) Add numbers entered on lines above: 4

**Step 4 Figure your total income**

6 Total wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) 6 17,210.00

7 Interest income. (If the total is over $400, also complete and attach Schedule 1 (Form 1040A), Part I.) 7 20.00

Attach check or money order here

8a Dividends. (If the total is over $400, also complete and attach Schedule 1 (Form 1040A), Part II.) 8a 30.00

b Exclusion. See the instructions on page 16. 8b 30.00

c Subtract line 8b from line 8a. Write the result. 8c 0.00

9a Unemployment compensation (insurance), from Form(s) 1099-G. Total received. 9a .

b Taxable amount, if any, from the worksheet on page 17 of the instructions. 9b .

10 Add lines 6, 7, 8c, and 9b. Write the total. This is your total income. 10 17,230.00

**Step 5 Figure your adjusted gross income**

11a Individual retirement arrangement (IRA) deduction, from the worksheet on page 19. 11a .

b Write IRA payments made in 1985 that you included on line 11a: ($ . )

12 Deduction for a married couple when both work. Complete and attach Schedule 1 (Form 1040A), Part III. 12 534.00

13 Add lines 11a and 12. Write the total. These are your total adjustments. 13 534.00

14 Subtract line 13 from line 10. Write the result. This is your adjusted gross income. 14 16,696.00

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**1984** **Form 1040A** Page 2

**Step 6 Figure your taxable income**

15 Write the amount from line 14. 15 16,696.00

16 Allowable part of your charitable contributions, from the worksheet on page 21 of the instructions. 16 0.00

17 Subtract line 16 from line 15. Write the result. 17 16,696.00

18 Multiply $1,000 by the total number of exemptions claimed on line 5e. 18 4,000.00

19 Subtract line 18 from line 17. Write the result. This is your taxable income. 19 12,696.00

**Step 7 Figure your tax, credits, and payments**

**If You Want IRS to Figure Your Tax, See Page 21 of the Instructions.**

20 Find the tax on the amount on line 19. Use the tax table, pages 31–36. 20 1,209.00

21a Credit for child and dependent care expenses. Complete and attach Schedule 1 (Form 1040A), Part IV. 21a .

b Partial credit for political contributions for which you have receipts. See page 24 of the instructions. 21b .

22 Add lines 21a and 21b. Write the total. 22 0.00

23 Subtract line 22 from line 20. Write the result (but not less than zero). This is your total tax. 23 1,209.00

24a Total Federal income tax withheld. This should be shown in Box 9 of your W-2 form(s). (If line 6 is more than $37,800, see page 24 of the instructions.) 24a 1,505.00

b Earned income credit, from the worksheet on page 26 of the instructions. See page 25 of the instructions. 24b .

25 Add lines 24a and 24b. Write the total. These are your total payments. 25 1,505.00

**Step 8 Figure your refund or amount you owe**

26 If line 25 is larger than line 23, subtract line 23 from line 25. Write the result. This is the amount of your refund. 26 296.00

27 If line 23 is larger than line 25, subtract line 25 from line 23. Write the result. This is the amount you owe. Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number and "1984 Form 1040A" on it. 27 .

**Step 9 Sign your return**

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature Date Your occupation

x Bus Driver

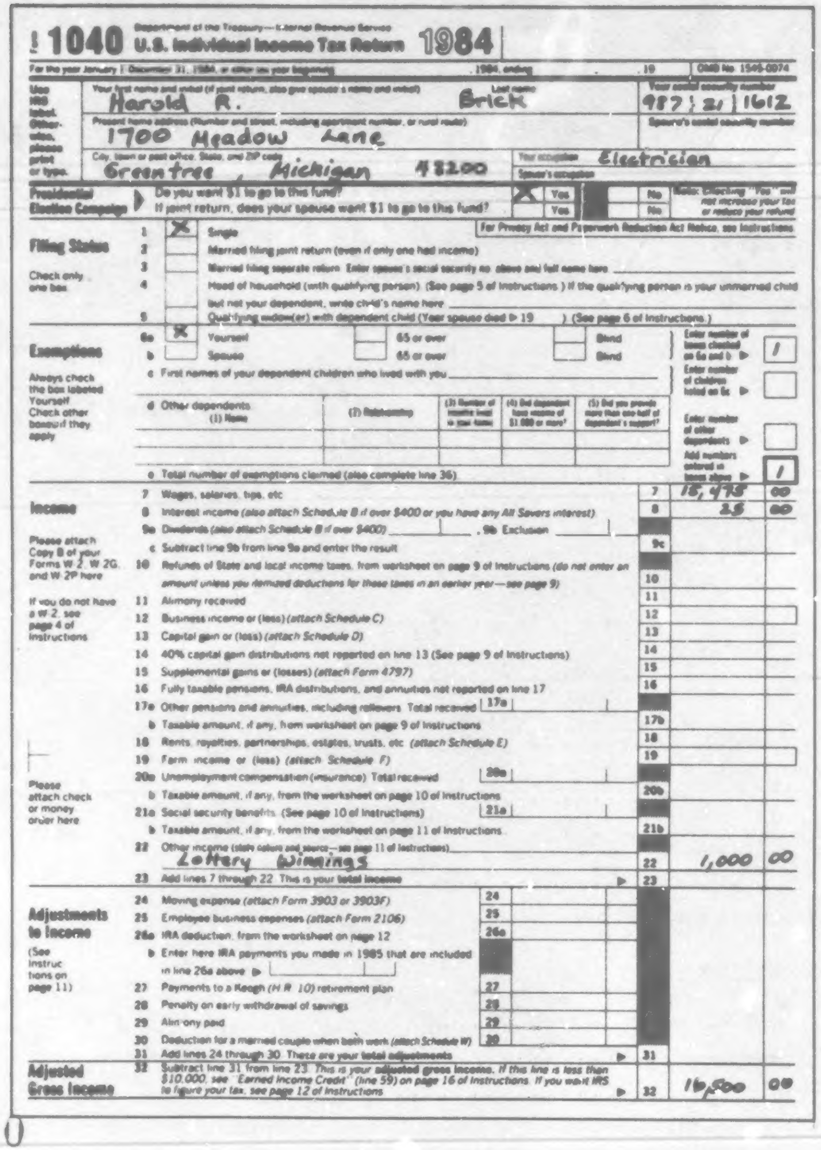
Spouse's signature (if joint return, both must sign) Date Spouse's occupation

2 Add amounts on line 1. Write the total here and on Form 1040A, line 8a. 2 .

**Part III** **Deduction for a married couple when both work** (See page 20)

Complete this part to figure the amount you can deduct on Form 1040A, line 12. Attach Schedule 1 to Form 1040A.

| | | (a) You | (b) Your spouse |
|---|---|---|---|
| 1 Wages, salaries, tips, etc., from Form 1040A, line 6. | 1 | 11,870.00 | 5,340.00 |
| 2 IRA deduction, from Form 1040A, line 11a. | 2 — | 0.00 | — 0.00 |
| 3 Subtract line 2 from line 1. Write the result. | 3 = | 11,870.00 | = 5,340.00 |
| 4 Write the amount from line 3, column (a) or (b) above, whichever is smaller. | 4 | | 5,340.00 |
| 5 Percentage used to figure the deduction (10%). | 5 | | × .10 |
| 6 Multiply the amount on line 4 by the percentage on line 5. Write your answer here and on Form 1040A, line 12. | 6 = | | 534.00 |



Form **1040** Department of the Treasury—Internal Revenue Service
**U.S. Individual Income Tax Return** **1984**

For the year January 1–December 31, 1984, or other tax year beginning , 1984, ending , 19 . OMB No. 1545-0074

Use IRS label. Otherwise, please print or type.

Your first name and initial (if joint return, also give spouse's name and initial): Harold R.
Last name: Brick
Your social security number: 987 ; 21 ; 1612
Present home address (Number and street, including apartment number, or rural route): 1700 Meadow Lane
Spouse's social security number:
City, town or post office, State, and ZIP code: Greentree , Michigan 48200
Your occupation: Electrician
Spouse's occupation:

**Presidential Election Campaign** ▶ Do you want $1 to go to this fund? ☒ Yes ☐ No
If joint return, does your spouse want $1 to go to this fund? ☐ Yes ☐ No
Note: Checking "Yes" will not increase your tax or reduce your refund.

For Privacy Act and Paperwork Reduction Act Notice, see Instructions.

**Filing Status**

Check only one box.

1 ☒ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. ____
4 ☐ Head of household (with qualifying person). (See page 5 of Instructions.) If the qualifying person is your unmarried child but not your dependent, write child's name here ____
5 ☐ Qualifying widow(er) with dependent child (Year spouse died ▶ 19 ). (See page 6 of Instructions.)

**Exemptions**

Always check the box labeled Yourself. Check other boxes if they apply.

6a ☒ Yourself ☐ 65 or over ☐ Blind
b ☐ Spouse ☐ 65 or over ☐ Blind
Enter number of boxes checked on 6a and b ▶ 1
c First names of your dependent children who lived with you ____
Enter number of children listed on 6c ▶

| d Other dependents (1) Name | (2) Relationship | (3) Number of months lived in your home | (4) Did dependent have income of $1,000 or more? | (5) Did you provide more than one-half of dependent's support? |
|---|---|---|---|---|
| | | | | |
| | | | | |

Enter number of other dependents ▶
Add numbers entered in boxes above ▶ 1
e Total number of exemptions claimed (also complete line 36)

**Income**

Please attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 4 of Instructions.

Please attach check or money order here.

| | | | | |
|---|---|---|---|---|
| 7 | Wages, salaries, tips, etc. | 7 | 15,475 | 00 |
| 8 | Interest income *(also attach Schedule B if over $400 or you have any All Savers interest)* | 8 | 25 | 00 |
| 9a | Dividends *(also attach Schedule B if over $400)* ____ , 9b Exclusion ____ | | | |
| c | Subtract line 9b from line 9a and enter the result | 9c | | |
| 10 | Refunds of State and local income taxes, from worksheet on page 9 of Instructions *(do not enter an amount unless you itemized deductions for those taxes in an earlier year—see page 9)* | 10 | | |
| 11 | Alimony received | 11 | | |
| 12 | Business income or (loss) *(attach Schedule C)* | 12 | | |
| 13 | Capital gain or (loss) *(attach Schedule D)* | 13 | | |
| 14 | 40% capital gain distributions not reported on line 13 (See page 9 of Instructions) | 14 | | |
| 15 | Supplemental gains or (losses) *(attach Form 4797)* | 15 | | |
| 16 | Fully taxable pensions, IRA distributions, and annuities not reported on line 17 | 16 | | |
| 17a | Other pensions and annuities, including rollovers. Total received 17a | | | |
| b | Taxable amount, if any, from worksheet on page 9 of Instructions | 17b | | |
| 18 | Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)* | 18 | | |
| 19 | Farm income or (loss) *(attach Schedule F)* | 19 | | |
| 20a | Unemployment compensation (insurance). Total received 20a | | | |
| b | Taxable amount, if any, from the worksheet on page 10 of Instructions | 20b | | |
| 21a | Social security benefits. (See page 10 of Instructions) 21a | | | |
| b | Taxable amount, if any, from the worksheet on page 11 of Instructions | 21b | | |
| 22 | Other income (state nature and source—see page 11 of Instructions) Lottery Winnings | 22 | 1,000 | 00 |
| 23 | Add lines 7 through 22. This is your **total income** ▶ | 23 | | |

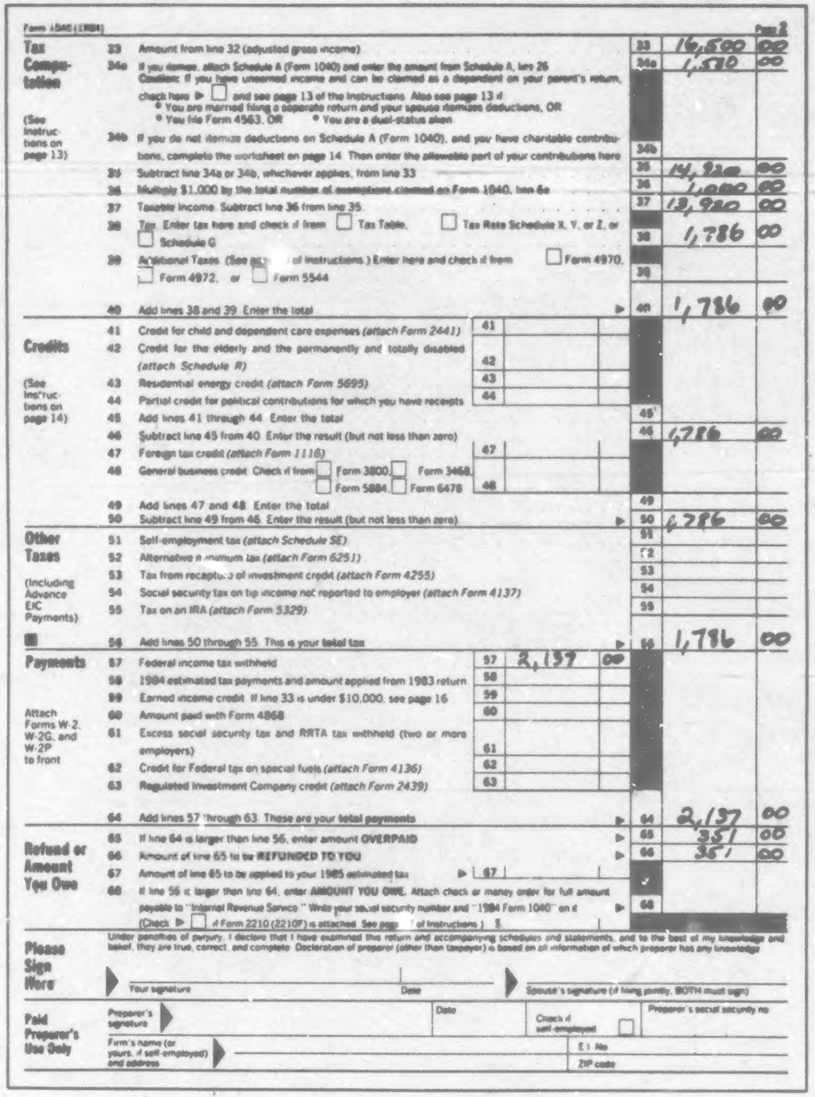
**Adjustments to Income**

(See Instructions on page 11)

| | | | | |
|---|---|---|---|---|
| 24 | Moving expense *(attach Form 3903 or 3903F)* | 24 | | |
| 25 | Employee business expenses *(attach Form 2106)* | 25 | | |
| 26a | IRA deduction, from the worksheet on page 12 | 26a | | |
| b | Enter here IRA payments you made in 1985 that are included in line 26a above ▶ | | | |
| 27 | Payments to a Keogh *(H.R. 10)* retirement plan | 27 | | |
| 28 | Penalty on early withdrawal of savings | 28 | | |
| 29 | Alimony paid | 29 | | |
| 30 | Deduction for a married couple when both work *(attach Schedule W)* | 30 | | |
| 31 | Add lines 24 through 30. These are your **total adjustments** ▶ | 31 | | |

**Adjusted Gross Income**

| | | | | |
|---|---|---|---|---|
| 32 | Subtract line 31 from line 23. This is your **adjusted gross income.** *If this line is less than $10,000, see "Earned Income Credit" (line 59) on page 16 of Instructions. If you want IRS to figure your tax, see page 12 of Instructions* ▶ | 32 | 16,500 | 00 |



Form 1040 (1984) Page 2

**Tax Computation**

(See Instructions on page 13)

| | | | | |
|---|---|---|---|---|
| 33 | Amount from line 32 (adjusted gross income) | 33 | 16,500 | 00 |
| 34a | If you itemize, attach Schedule A (Form 1040) and enter the amount from Schedule A, line 26. Caution: If you have unearned income and can be claimed as a dependent on your parent's return, check here ▶ ☐ and see page 13 of the Instructions. Also see page 13 if: • You are married filing a separate return and your spouse itemizes deductions, OR • You file Form 4563, OR • You are a dual-status alien | 34a | 1,580 | 00 |
| 34b | If you do not itemize deductions on Schedule A (Form 1040), and you have charitable contributions, complete the worksheet on page 14. Then enter the allowable part of your contributions here | 34b | | |
| 35 | Subtract line 34a or 34b, whichever applies, from line 33 | 35 | 14,920 | 00 |
| 36 | Multiply $1,000 by the total number of exemptions claimed on Form 1040, line 6e | 36 | 1,000 | 00 |
| 37 | Taxable income. Subtract line 36 from line 35 | 37 | 13,920 | 00 |
| 38 | Tax. Enter tax here and check if from ☐ Tax Table, ☐ Tax Rate Schedule X, Y, or Z, or ☐ Schedule G | 38 | 1,786 | 00 |
| 39 | Additional Taxes. (See page of Instructions.) Enter here and check if from ☐ Form 4970, ☐ Form 4972, or ☐ Form 5544 | 39 | | |
| 40 | Add lines 38 and 39. Enter the total ▶ | 40 | 1,786 | 00 |

**Credits**

(See Instructions on page 14)

| | | | | |
|---|---|---|---|---|
| 41 | Credit for child and dependent care expenses *(attach Form 2441)* 41 | | | |
| 42 | Credit for the elderly and the permanently and totally disabled *(attach Schedule R)* 42 | | | |
| 43 | Residential energy credit *(attach Form 5695)* 43 | | | |
| 44 | Partial credit for political contributions for which you have receipts 44 | | | |
| 45 | Add lines 41 through 44. Enter the total | 45 | | |
| 46 | Subtract line 45 from 40. Enter the result (but not less than zero) | 46 | 1,786 | 00 |
| 47 | Foreign tax credit *(attach Form 1116)* 47 | | | |
| 48 | General business credit. Check if from ☐ Form 3800, ☐ Form 3468, ☐ Form 5884, ☐ Form 6478 48 | | | |
| 49 | Add lines 47 and 48. Enter the total | 49 | | |
| 50 | Subtract line 49 from 46. Enter the result (but not less than zero) ▶ | 50 | 1,786 | 00 |

**Other Taxes**

(Including Advance EIC Payments)

| | | | | |
|---|---|---|---|---|
| 51 | Self-employment tax *(attach Schedule SE)* | 51 | | |
| 52 | Alternative minimum tax *(attach Form 6251)* | 52 | | |
| 53 | Tax from recapture of investment credit *(attach Form 4255)* | 53 | | |
| 54 | Social security tax on tip income not reported to employer *(attach Form 4137)* | 54 | | |
| 55 | Tax on an IRA *(attach Form 5329)* | 55 | | |
| 56 | Add lines 50 through 55. This is your **total tax** ▶ | 56 | 1,786 | 00 |

**Payments**

Attach Forms W-2, W-2G, and W-2P to front.

| | | | | |
|---|---|---|---|---|
| 57 | Federal income tax withheld 57 | 2,137 00 | | |
| 58 | 1984 estimated tax payments and amount applied from 1983 return 58 | | | |
| 59 | Earned income credit. If line 33 is under $10,000, see page 16 59 | | | |
| 60 | Amount paid with Form 4868 60 | | | |
| 61 | Excess social security tax and RRTA tax withheld (two or more employers) 61 | | | |
| 62 | Credit for Federal tax on special fuels *(attach Form 4136)* 62 | | | |
| 63 | Regulated Investment Company credit *(attach Form 2439)* 63 | | | |
| 64 | Add lines 57 through 63. These are your **total payments** ▶ | 64 | 2,137 | 00 |

**Refund or Amount You Owe**

| | | | | |
|---|---|---|---|---|
| 65 | If line 64 is larger than line 56, enter amount **OVERPAID** ▶ | 65 | 351 | 00 |
| 66 | Amount of line 65 to be **REFUNDED TO YOU** ▶ | 66 | 351 | 00 |
| 67 | Amount of line 65 to be applied to your 1985 estimated tax ▶ 67 | | | |
| 68 | If line 56 is larger than line 64, enter **AMOUNT YOU OWE.** Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number and "1984 Form 1040" on it. (Check ▶ ☐ if Form 2210 (2210F) is attached. See page of Instructions.) $ ▶ | 68 | | |

**Please Sign Here**

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Your signature ____ Date ____ ▶ Spouse's signature (if filing jointly, BOTH must sign) ____

**Paid Preparer's Use Only**

Preparer's signature ▶ ____ Date ____ Check if self-employed ☐ Preparer's social security no. ____
Firm's name (or yours, if self-employed) and address ▶ ____ E.I. No. ____ ZIP code ____

**SCHEDULES A&B (Form 1040)**
Department of the Treasury
Internal Revenue Service

# Schedule A—Itemized Deductions

(Schedule B is on back)

▶ Attach to Form 1040. ▶ See Instructions for Schedules A and B (Form 1040).

OMB No. 1545-0074

**1984**
07

Name(s) as shown on Form 1040: Harold R. Brick

Your social security number: 987 21 1612

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Medical and Dental Expenses** | 1 | Prescription medicines and drugs; and insulin | 1 | | | | |
| **(Do not include expenses reimbursed or paid by others.)** | 2 a | Doctors, dentists, nurses, hospitals, insurance premiums you paid for medical and dental care, etc. | 2a | | | | |
| | b | Transportation and lodging | 2b | | | | |
| (See Instructions on page 19) | c | Other (list—include hearing aids, dentures, eyeglasses, etc.) ▶ | 2c | | | | |
| | 3 | Add lines 1 through 2c, and write the total here | 3 | | | | |
| | 4 | Multiply the amount on Form 1040, line 33, by 5% (.05) | 4 | | | | |
| | 5 | Subtract line 4 from line 3. If zero or less, write -0-. **Total** medical and dental ▶ | | | 5 | -0- | |
| **Taxes You Paid** | 6 | State and local income taxes | 6 | | | | |
| | 7 | Real estate taxes | 7 | | | | |
| (See Instructions on page 20) | 8 a | General sales tax (see sales tax tables in instruction booklet) | 8a | | | | |
| | b | General sales tax on motor vehicles | 8b | | | | |
| | 9 | Other taxes (list—include personal property taxes) ▶ | 9 | | | | |
| | 10 | Add the amounts on lines 6 through 9. Write the total here. **Total** taxes ▶ | | | 10 | 1,605 | 00 |
| **Interest You Paid** | 11 a | Home mortgage interest you paid to financial institutions | 11a | | | | |
| (See Instructions on page 20) | b | Home mortgage interest you paid to individuals (show that person's name and address) ▶ | 11b | | | | |
| | 12 | Total credit card and charge account interest you paid | 12 | | | | |
| | 13 | Other interest you paid (list) ▶ | 13 | | | | |
| | 14 | Add the amounts on lines 11a through 13. Write the total here. **Total** interest ▶ | | | 14 | 2,155 | 00 |
| **Contributions You Made** | 15 a | Cash contributions. (If you gave $3,000 or more to any one organization, report those contributions on line 15b.) | 15a | | | | |
| (See Instructions on page 20) | b | Cash contributions totaling $3,000 or more to any one organization. (Show to whom you gave and how much you gave.) ▶ | 15b | | | | |
| | 16 | Other than cash (attach required statement) | 16 | | | | |
| | 17 | Carryover from prior year | 17 | | | | |
| | 18 | Add the amounts on lines 15a through 17. Write the total here. **Total** contributions ▶ | | | 18 | 120 | 00 |
| **Casualty and Theft Losses** | 19 | Total casualty or theft loss(es). (You must attach Form 4684 or similar statement.) (see page 21 of Instructions) ▶ | | | 19 | -0- | |
| **Miscellaneous Deductions** | 20 | Union and professional dues | 20 | | | | |
| (See Instructions on page 21) | 21 | Tax return preparation fee | 21 | | | | |
| | 22 | Other (list type and amount) ▶ | 22 | | | | |
| | 23 | Add the amounts on lines 20 through 22. Write the total here. **Total** miscellaneous ▶ | | | 23 | -0- | |
| **Summary of Itemized Deductions** | 24 | Add the amounts on lines 5, 10, 14, 18, 19, and 23. Write your answer here. | | | 24 | 3,880 | 00 |
| (See Instructions on page 22) | 25 | If you checked Form 1040 { Filing Status box 2 or 5, write $3,400<br>Filing Status box 1 or 4, write $2,300<br>Filing Status box 3, write $1,700 } | | | 25 | 2,300 | 00 |
| | 26 | Subtract line 25 from line 24. Write your answer here and on Form 1040, line 34a. (If line 25 is more than line 24, see the Instructions for line 26 on page 22.) ▶ | | | 26 | 1,580 | 00 |

**For Paperwork Reduction Act Notice, see Form 1040 Instructions.**

Schedule A (Form 1040) 1984

# Module 3

## History of Taxation

**Objectives**

At the end of this lesson you will be able to discuss:

1. The federal income tax as a constitutional issue
2. The changing needs for federal revenue since the American Revolution
3. The use of income tax as the main source of federal revenue.

**Training Aids**

"Money Talks" film

"The Subject was Taxes" film

"Taxes Raise Revenue" film from the series **Tax Whys: Understanding Taxes**

**Student Materials**

Publication 21

**Content**

### Introduction

This module provides a chronological view of the history of tax in the United States.

### Development

1. The federal income tax as a constitutional issue
   a. The issue of taxation without representation was important to our seeking independence and forming a federal government. British-imposed taxes were resented by the colonists and contributed to the start of the revolution because colonists did not have representatives in the Parliament that levied the taxes.
   b. Under the Articles of Confederation (1781), the federal government had no power to raise taxes. It depended on voluntary contributions from the states.
   c. Under the U.S. Constitution (1789), Congress was granted the power to raise taxes. Taxes on income or property could only be assessed in proportion to the population in each state. Collecting these taxes was the responsibility of state governments. Only import tariffs and excise taxes on specific items could be imposed and collected by the federal government.
   d. During the 1800's, the personal income tax was imposed by the federal government for only two brief periods: from 1861 to 1868 and from 1894 to 1895. On the latter occasion, the tax was ruled unconstitutional, because it was not assessed in proportion to state populations.

**Notes**

Rather than discuss the subject chronologically, the lesson plan is organized by objectives. Show the objectives on the chalkboard or flipchart.

Ask students to identify in their reading the fact or event that they find to be the most unexpected and to think about why it surprised them.

Before the students read the student text, find out what they already know about the history of taxation (for example, the Boston Tea Party, the "revenooers" (who were also enforcing prohibition), how government services changed during the Great Depression).

When the students have finished reading the module, discuss the facts and events they found to be surprising, and any questions they may have.

If the module is taught in a history class, discuss with the students any tax-related events included in their main history textbook.

**Content**

**Notes**

e. In 1913, the 16th Amendment to the Constitution was ratified by the states, giving Congress the power to tax individual incomes without regard to state population.

2. The changing needs for federal revenue

Show film, "Taxes Raise Revenue".

   a. Until the 1960's, the need for revenue could be explained mainly by the cost of waging wars: the War of 1812, the Civil War. World War I, and World War II. The need for federal revenue was greatly reduced in times of peace.
   b. In response to the Great Depression, the federal government's mission was enlarged to encompass important social and economic goals. Programs were started to provide such things as old-age income security, unemployment compensation, and social welfare services. The minimum wage was established.

3. Income tax as the main source of federal revenue
   a. In the late 1800's, people pressured Congress to impose an income tax on those with high incomes. The existing tariffs and excise taxes were seen as unfairly taxing those with lower incomes.
   b. Until the early 1940's, the income tax was paid by those with high incomes. To raise revenue for World War II, exemption levels were lowered. In just 6 years, the number of taxpayers grew tenfold:

      —In 1939, there were 4 million taxpayers.

      —In 1945, there were almost 43 million taxpayers.

Use the film "Money Talks" and/or "The Subject was Taxes" as a summary to lesson.

   c. Today, income taxes produce more than half of all federal government's revenue.

## Suggested Activities

1. Think about how government services and taxes might have differed in the 1600's, as compared to today. Begin by discussing differences in the economy, (less need for regulation), defense, highways, education, income security and social services, health, etc. Discuss the greater role of the family in vocational training and reduced need for income (due to bartering and direct production of clothes, food, fuel, housing). Discuss how easy or difficult it would be to collect income, property, excise or sales taxes. How would taxes be collected in a frontier town?
2. Have students interview the oldest person they know in their family or neighborhood. The scope of the interview could be at three levels:
   a. The subject's first recollection of paying taxes by their parents or some other adult;
   b. What happened to people who became destitute before the social security system was established during the Great Depression; and
   c. Contemporary attitudes toward taxation and services.
3. (If taught in an American history class)—Historical events related to taxation may be characterized as:
   a. Testing the authority to raise taxes;
   b. Legislating morality; and
   c. Partisan struggles over the amount and type of taxes to be raised.

   Discuss the following events featured in most American history books with respect to the three characterizations:
   a. Boston Tea Party
   b. Articles of Confederation
   c. Shay's Rebellion
4. Students could select one of these events for a research project.—(If taught in an American history class)—Select key events from the history of taxation and discuss them in the context of life at the time the event took place.
5. Discuss the importance of taxing in proportion to state population, as was the case before 1913. Ask students whether they would rather have been living in a rich state or poor state at that time, and why.

   To aid your discussion, put the following information about two hypothetical states on the board:

| | Annual Income Tax Per Person | State Population | Total Tax Burden | Annual Income Per Person |
|---|---|---|---|---|
| Rich State | $500 | 50,000 | $25 mil. | $10,000 |
| Poor State | $500 | 25,000 | $12.5 mil. | $ 5,000 |

   Note that the state population should make no difference in student preference. The critical difference is the annual income per person. In the rich state, the tax rate would be 5% of income, whereas the average taxpayer in the poor state would have to pay 10% of his or her income in taxes.

**Content**

**Notes**

d. Whiskey Rebellion
e. Nullification crisis
f. Cleveland tariff reduction
g. Volstead Act
h. Great Depression
i. Proposition 13

# Module 4

## Economics of Taxation

**Objectives**

At the end of this lesson you will be able to:

1. Identify major government services
2. Identify and classify major taxes
3. Define "ability to pay" and "progressive taxation".

**Training Aids**

"Taxes Affect Different Income Groups" film from the series **Tax Whys: Understanding Taxes**

**Student Materials**

Publication 21

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**Content**

### Introduction

This module explores why taxes are needed, the types of American taxes in existence, and the major government services they support.

### Development

1. Government services

   Federal, state, and local governments provide many services. They include:

   a. National defense
   b. Managing natural resources
   c. Education
   d. Income security
   e. Environmental protection
   f. Preventing monopoly control
   g. Regulating natural monopolies
   h. Consumer protection

2. Taxes in the United States

   a. To pay for government services, taxes are imposed on three economic bases:

| *Economic Base* | *Types of Taxes* |
|---|---|
| Income | —Individual and corporate income<br>—Payroll taxes for social security and unemployment compensation |
| Consumption | —Sales and excise |
| Wealth | —Real and personal property<br>—Estate, inheritance, and gift |

**Notes**

Give very brief overview to student text, discussing the topics covered.

Show the three objectives on a chalkboard or flipchart.

Have students read module 4 in their text. While they read, have them list ten terms related to the content or that they did not fully understand.

Ask students to suggest and define important vocabulary words. Make sure to include: revenue, free enterprise, natural monopolies, capital gains, escrow, excise, progressive, regressive, taxable income, exemptions, deductions, and voluntary compliance.

Have the students suggest service and taxes and list them on the chalkboard.

Identify three economic bases that are taxed. Have students match taxes to tax base.

**Content**

b. The different levels of government depend on different taxes as their main source of revenue:

| Level of Government | Main Taxes |
|---|---|
| Federal | —Individual income and social security |
| State | —Individual income, sales, and excise |
| Local | —Real property |

c. The federal income tax is based on the concept of ability to pay. This concept is supported by two main features of the system:

1. Taxpayers with the same gross income may not have the same ability to pay. Those with many dependents or expenses may subtract exemptions and deductions from their gross income, resulting in a lower taxable income.
2. The income tax rates are "progressive." As a person's taxable income increases, the percentage of each dollar that must be paid in income tax also increases.

3. Your federal dollar

a. Some important services do not cost much in the federal budget. For example, most of the cost of regulations is borne by consumers, rather than appearing as a major government expense.

b. Discuss how the burden of taxation varies for differing segments of the population. Also discuss how different segments of the population benefit from various government services.

4. Taxes in other countries

a. Describe the taxes imposed in other countries.

b. Point out differences in tax rates, deductions and allowances that vary from the United States system.

**Notes**

Have students match taxes to three levels of government, with teacher help if needed.

Show film "Taxes Affect Different Income Groups".

You may want to use Suggested Activities 1 and 6.

## Suggested Activities

1. See if students know the names of famous people who have moved from one country to another due to excessive income or inheritance taxes. Suggest that they think about rock stars, athletes, filmmakers and authors. Mention the connection to state governments, many of which try to attract business and industry through tax incentives.
2. The City Council has come up with the following list of upcoming expenses:
   a. installing new storm drains;
   b. repairing the main bridge into the city;
   c. setting up a new baseball field;
   d. renovating three of the city's swimming pools; and
   e. expanding the reference section in the main library.

   Have students participate in a mock town meeting to suggest ways that revenue could be raised to pay for these improvements. Consider alternatives to taxation. For suggested taxes, consider the fairness of the tax and its connection to those benefiting from the repair.
3. Most people take public libraries for granted. Have students imagine themselves as citizens of a small town which has no library. Suppose at a town meeting the decision is made to grant a franchise to a private organization to run the library for profit, rather than to raise money through taxes. What regulations should the town impose for this "natural monopoly?" Should anything be done to assist poor families who could not afford to rent books?
4. Most government revenue is fed back into the private economy through employment and distribution of benefits. Ask students whether any relative is employed:
   a. by a government agency;
   b. by a company that does business with a government agency;
   c. by a business whose customers are:
      —employed by a government agency
      —receiving income benefits which are spent to buy goods and services from the business (consider the elderly, unemployed, and people receiving public welfare support).
5. As a class, develop a set of ten questions related to taxes and services (types paid or received, taxes viewed as the fairest, which services are viewed as most valuable, etc.). Have student interview at least one adult. Make list of subject types on board and ask students which subject type they plan to interview (in order to assure diversity of answers). Subject types could include:
   a. small-business owner;
   b. homemaker;
   c. employee; and
   d. retired person.

   Results could be discussed or tabulated in class.
6. Invite a speaker from another country to come to your class. The person should have an understanding of his or her country's government structure, economics, and tax system. Before class have students come up with a list of ten questions to be asked of the speaker. Students should be formed in groups and assigned subject areas in which to formulate questions and discuss how the American system operates as opposed to other systems.

# Module 5

## Politics of Taxation

**Objectives**

At the end of this lesson you will be able to identify and discuss:

1. The executive branch's role in tax legislation
2. How Congress passes tax legislation
3. How members of Congress are influenced by voters and pressure groups.

**Training Aids**

Handout

"Taxes . . . Are They Fair?" film from the series **Tax Whys: Understanding Taxes**

**Student Materials**

Publication 21

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**Content**

### Introduction

This module describes the legislative process and shows how members of Congress are influenced by pressure groups.

### Development

1. Tax Legislative Process
   a. Congressional work on major tax legislation normally begins in response to a legislative proposal prepared by the Treasury Department from recommendations by the President. It can also be made because of special interest groups or because of Congress.
   b. The power to raise federal taxes belongs to the Congress, and all tax bills must originate from the House of Representatives.
   c. Usually, bills are introduced by one or more members of Congress. For tax legislation, however, bills are introduced by the Committee on Ways and Means as a whole.

**Notes**

Show the objectives on the chalkboard or flipchart. While they are reading the text, have students make a list of "the players" in the legislative process.

Review briefly the basic steps in the legislative process and create a combined list of the players on the blackboard as students describe the role of each player in the legislative process. Relate discussion back to the lesson's objectives.

Also use the chart at the end of this module to illustrate the process.

Identify provisions in the Constitution and discuss how they affect the behavior of members of Congress and the President. The three provisions are:

1. Congressional autonomy in raising taxes;
2. The right to petition for redress of grievances; and
3. The elections process.

| **Content** | **Notes** |
|---|---|
| d. The legislative process involves many steps that have the following effects:<br>—Only bills with enduring political support survive to become law.<br>—There are many opportunities for influence by the executive branch and the public. Three important ones are: proposing legislation, testifying at hearings, and publicizing voting records.<br>—Most laws are passed only after there has been effective political compromise. | |
| e. The power of Congress is partly balanced by the presidential veto. If the president vetoes proposed legislation, Congress may override the veto by a two-thirds majority.<br>The veto, with the powers of proposing legislation and testifying at hearings mentioned above, form the role of the executive branch. | |
| 2. How members of congress are influenced | |
| a. Members of Congress are strongly influenced by their voting constituencies and by pressure from organized interest groups. | Divide the class into small groups. Have each group make up a list of five interest groups. For each one, identify the types of taxes and services they would prefer.<br>Have each group report on the result of its work. |
| b. Voters exercise their influence directly at election time. | |
| c. There are two types of pressure groups:<br>—Special interest groups, that represent mainly the interests of their own members; and<br>—Public interest groups that claim to represent the general public's viewpoint. | Define the difference between special and public interest groups. |
| d. The power of an interest group depends upon the size of its membership (voting power), its financial resources, its ability to supply useful information, its ability to inform or influence voters, and its ability to organize for political action before and at election time. | Show film, "Taxes . . . Are They Fair?". |

## Suggested Activities

1. Put the list of services and "current" level of funding on the blackboard. Have students "cut the budget" from $125 to $100 (a 20% cut). Tell students that they are free to increase funding for any of the service as long as the total budget does not exceed $100. Have students work in small groups and report on their revised budget. Record their results on the board and discuss why they chose to make certain cuts or increases.

   Next, present the "revised" funding levels. Tell students that the services were selected from each major federal expense category and that the revised levels reflect actual percent distribution of expenditures for the general categories (for example, subway subsidy falls in the general category of transportation). Ask students to identify each of the general expense categories represented in the list.

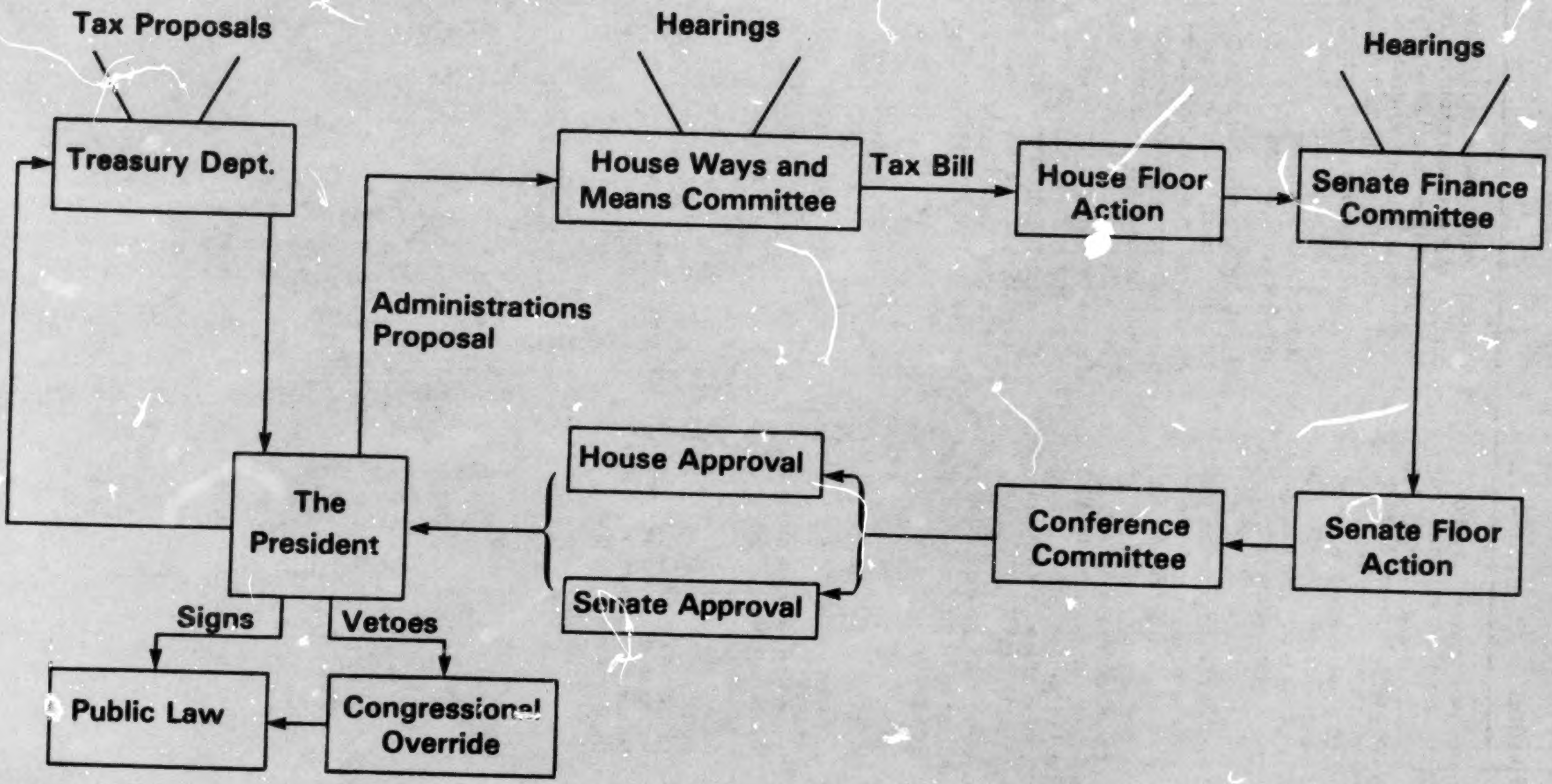
   You may also consider inviting a local public official to class and ask him or her to join in the budget cutting exercise.

| Revised level | Current level | Services |
|---|---|---|
| $ 34 | $ 34 | Income assistance for the disabled |
| 2 | 10 | Free food for starving countries |
| 3 | 9 | Subway subsidy |
| 5 | 6 | Head Start |
| 24 | 40 | Spy satellites |
| 10 | 2 | Hospital construction |
| 3 | 3 | Old soldiers' home |
| 1 | 4 | Subsidies for tobacco growers |
| 10 | 5 | Interest paid on borrowed money |
| 8 | 12 | Money for everything else |
| $100 | $125 | |

2. Have students independently make up a list of services that they feel shouldn't be provided at taxpayer's expense and another list that should. In small groups, have students reach consensus on one list. Encourage them to trade items back and forth. After reporting from small groups, discuss the trading and relate it to the trading of support and votes that goes on among members of Congress.

3. Have students ask their parents or another adult about the associations or organizations they belong to. Have them find out what their parents know about the groups' political activity and which issues the organizations have supported. This activity could be extended to a research paper by having students write or telephone at least one of the groups to find out more about the group's membership size, sources of revenue, and political activity. As a whole, the class could create a standard set of questions for all students to use.

# Tax Legislative Process



Tax Proposals

Treasury Dept.

Hearings

House Ways and Means Committee

Tax Bill

House Floor Action

Hearings

Senate Finance Committee

Administrations Proposal

The President

House Approval

Senate Approval

Conference Committee

Senate Floor Action

Signs

Vetoes

Public Law

Congressional Override

# Module 6

## State Taxes

**Objectives**

At the end of this lesson you will be able to:

1. Identify the common types of state taxes
2. Describe the two methods used to determine personal income tax
3. Describe the three common types of sales tax
4. Describe personal property tax
5. Identify other types of state taxes.

**Training Aids**

"Taxes . . . Can They Be Shifted?" or "Taxes Affect Different Income Groups"—both films from the series **Tax Whys: Understanding Taxes**

**Student Materials**

Publication 21

| **Content** | **Notes** |
|---|---|
| **Introduction**<br>States acquire the majority of their revenue from taxes, fees, and licenses. This lesson deals with the types of taxes that states impose. The information is general and does not refer to any state specifically. | List objectives on chalkboard or flipchart. |
| **Development** | |
| 1. Personal income tax | Show film "Taxes . . . Can They Be Shifted?" or "Taxes Affect Different Income Groups." |
| a. More than 40 states currently have a personal income tax. | |
| b. Most states base the tax on taxable income rather than gross income. Taxable income is gross income less adjustments, exemptions, and deductions allowed by the state. | Show similarity to federal government. |
| c. Tax is computed using one of 2 methods: | |
| Flat rate—everyone taxed at the same rate or percentage. | Example of a regressive tax. |
| Graduated rate—those with higher incomes pay a higher rate of tax. | Example of a progressive tax. |
| d. Most states require state tax withholding. | |
| 2. State sales tax | |
| a. This tax is levied on the sale of goods and services. | |
| b. There are 3 types of sales taxes:<br>Vendor tax—imposed upon the person doing business and based upon the amount of goods sold.<br>Consumer tax—imposed on the retail sale of the goods.<br>Combination—imposed upon the vendor who then passes the tax onto the consumer. | |
| c. Sales taxes are imposed at a flat rate. | Another example of a regressive tax. |
| d. Some states exclude certain necessity items from sales tax and exempt certain taxpayers from paying sales tax. | |
| e. Use tax-similar to a sales tax and is imposed for storage use, or purchase of certain personal property. | |

| Content | Notes |
|---|---|
| 3. Property tax | |
| a. Property tax is divided into real property tax and personal property tax. | Define each term. |
| b. Tax is assessed on either the market value or a fraction of the market value of the property. | |
| c. Some states exempt certain taxpayers (schools, hospitals, etc.) from the tax. | |
| d. Property taxes are the most important for local government—about 81% of revenue comes from it. | |
| 4. Other state taxes | |
| a. Fuel tax—imposed on gasoline and diesel fuel, usually as cents per gallon. | Example of a user tax. |
| b. Inheritance tax—imposed on the transfer of property after the owner's death. Either the flat rate or graduated rate method is used. | Beneficiary pays the tax |
| Estate tax—imposed on the entire estate of the decedent. | Federal government uses this system. |
| c. Corporate income tax—taxes corporations on income in the same manner as individuals. | Again either flat rate or graduated rate method is used. |

## Suggested Activities

1. Contact your state income tax bureau to see if instructional materials are available for your state. If not, order forms and instruction booklets and prepare a lesson on your state's tax system. Students who are required to file state returns can prepare them in class.
2. Have someone from your state income tax bureau speak to the class. Students should prepare questions in advance.
3. Have students research to find out what kinds of taxes their state imposes.

# Module 7

## Facts and Fallacies About the IRS

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**Objective**

At the end of this lesson you will be able to identify certain facts and fallacies about the IRS.

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**Control**

**Notes**

### Introduction

Many taxpayers have misconceptions about income tax law and the procedures of the IRS. This module presents nine common misconceptions or fallacies about the IRS, each followed by the actual facts on the topic.

### Development

Fallacy #1:

Using the peel-off label and coded envelope from your tax package will cause your return to be examined.

Discuss Fact #1.

Fallacy #2:

If you call IRS, the call will be recorded and your return marked for examination.

Discuss Fact #2.

Fallacy #3:

IRS agents and revenue officers work on commission.

Discuss Fact #3.

Fallacy #4:

If you wait until April 15th to file your return, your return will probably not be selected for examination.

Discuss Fact #4.

Fallacy #5:

If IRS assists you with your return, they won't allow deductions that others would, and your tax will be more.

Discuss Fact #5.

Fallacy #6:

You will definitely owe more tax if your return is examined

Discuss Fact #6.

Fallacy #7:

When IRS makes a mistake, it never gets corrected.

Discuss Fact #7.

Fallacy #8:

If your tax return is examined once, it will continue to be examined year after year.

Discuss Fact #8.

**Content**

Fallacy 9:

If you owe taxes and cannot pay right away, the IRS will seize all your property.

**Notes**

Discuss Fact #9.

1. This module can be used either as an introduction or a summary to the module on "How To Prepare an Income Tax Return."
2. The lesson can be presented in the form of a quiz. Use each fallacy as the basis for a question that would elicit a "true" or "false" response. Then have the students read the lesson to learn the facts.

### Summary

Misconceptions about IRS can be cleared up by calling or writing to IRS.

# Module 8

## Glossary of Tax Terms

This module contains terms from all the modules with their definitions.

After each term, there is a number in parentheses which refers to the module where the subject is primarily discussed.

# Module 9

## Current Issues in Taxation

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**Objective**

At the end of this lesson you will be able to develop strategies for debate using a set of given facts.

**Introduction**

This module is optional and can be used in conjunction with Module 4, Economics of Taxation, or Module 5, Politics of Taxation. It contains three simulation activities which allow the students to develop strategies for debate on different political issues. There is one basic activity with two additional topics branching from the basic one. You may use just one activity or all three.

There are two student handouts for use with the three activities.

All revenue-raising options and budget projections in the student handouts are based on a report from the Congressional Budget Office, dated February 1982. Options were selected for their educational value (to represent the types of measures that could be enacted) and thus do not reflect administration policy. In class discussion, options can be compared as to regressivity, impact on specific parts of the economy, and political or administrative feasibility. Since all estimates are dated, you could compare these options for reducing the federal deficit with what actually happened after February 1982.

**Basic plan**

1a. Discuss the problem of high federal deficits, estimated to be about one trillion dollars to be incurred from 1983 to 1987. Ask students why this high deficit could cause political and economic problems.

b. Distribute list of options for raising revenue and clarify any definitional issues.

c. As homework, have the students "solve the federal deficit" by choosing a set of options that would reduce the deficit by a total of $290 billion (see second paragraph of testimony for rationale).

2a. List options on the board. Take student vote on which options were selected when doing their homework.

b. Construct a "people's bill" using the most popular options that would add up to $290 billion.

c. "Debate" with students the economic or political pros and cons among the options.

**Public Opinion Option**

3a. Distribute testimony. Have students read silently and then clarify any definitional issues.

b. Provide students (or have class prepare) a standard set of questions to address the following issues:

- — the political and economic problems of high deficits,
- — relative preference for spending cuts or tax increases, and
- — position on revenue-raising options;

and to gather background characteristics, such as age, occupation, and political party.

c. As homework, have each student interview three adults (at least two from outside their own family) using the standard set of questions. Stress that students should try to find adults that vary on the background characteristics.

4a. Have students meet in small groups to compare results from their interviews. Have students compare their answers against the following issues:

- — How did economic self-interest shape the interviewee's preference among the options for raising revenue?
- — How did their positions differ with respect to party affiliation?

b. Have each group report one generalization for each of the above two questions. Briefly list the generalizations on the board. Open up class for discussion.

c. As homework, assign students to work in pairs on a designated option. Their assignment will be to prepare paragraphs both for and against the option.

5a. To simulate "hearings," have students read their positions for or against each option. Discuss the "testimony" with class.

b. Take a second vote on the 15 options. Compare results with the first vote (step 2b) and discuss the reasons for any shifts in preference.

**Political Process Option**

The scenario for this option may be as follows: the House Committee on Ways and Means is part way through its hearings, with testimony having been taken from administration witnesses, invited panelists, and some special interest groups. The "hearings" in your class (see Step 7) are therefore a continuation of hearings, with students providing testimony from other special interest groups. In writing their testimony, you should encourage students to add some political rhetoric as normally happens in real testimony.

6a. Explain the objective of the political simulation.

b. Assign students to the following roles:

— Committee Chairman (designate party),
— Ranking minority member (designate other party),
— Committee members (balanced party representation), and
— Public witnesses (special interest groups).

c. Have each committee member write a scenario for the politician that he or she would like to role-play, and then have them meet as a group to plan their strategy for the upcoming hearings.

At the same time, pair off the remaining students and assign them with the name of a special interest group that they are to represent. Have students begin working on their testimony by selecting from three to six options that they will support or oppose.

d. As homework, students are to prepare a written statement of their position (with reasons) for the options selected. The statement should only take about two or three minutes to read during the hearings.

7. *Hearings.* Conduct hearings at which time students will be "welcomed" to the hearing by the Committee Chairperson and asked to read his or her testimony. Public witnesses will be questioned by committee members. Chairperson calls committee members, who may both ask questions and interject their own positions in response to the testimony.

8. *Mark-Up.* Have committee members leave the room to conduct their "executive mark-up session." Students should plan a five-minute report of the reasons why they selected certain options and rejected others. For the remaining students, discuss what they expect committee members will do. Debrief students in their role-playing experience as a representative of a special interest group.

9. *Debate.* Have Committee Chairperson read the committee's bill and "report." Assign a student as "President of the Senate" to direct the Senate "floor debate." All other students will have been equally divided by party affiliation. They should be free to change their positions as a result of the hearings.

(To extend the complexity of this step, you could assign students to the roles of Majority and Minority Whips. A class period should be inserted, during which students plan their individual positions for the debate, and then meet by party affiliation to plan their strategy during the debate. You might also want to consider adding a swing bloc of Conservative Democrats that meet separately to plan their strategy.)

Hold a floor debate, with the time formally divided between/among the groups. As homework, students should feel free to "lobby" each other.

10. Take final vote on the bill. Compare with earlier vote and discuss any shifts in class position. Debrief students on the hearing and voting experience and any changes that may have occurred on their positions.

## Revenue-Raising Options

### Scale Back the Economic Recovery Tax Act Of 1981

**Option 1.** **Repeal inflation indexing** **+$93 billion**

Beginning in 1985, income tax brackets, zero bracket amount, and personal exemption amount are to be adjusted for inflation, as measured by the Consumer Price Index. Inflation erodes purchasing power: when a worker receives a raise that offsets inflation, he or she will also have to pay a higher percentage of income in taxes. Repeal would hurt low- and moderate-income taxpayers most.

**Option 2.** **Reduce 1983 rate cut from 10% to 5%** **+$88 billion**

**Option 3.** **Eliminate 1983 rate cut**

In July 1983, all tax rates are to be reduced by an average of 10%. An individual with a taxable income of $15,000 would pay $2,097 in 1983 compared to $2,330 in 1982. At $40,000, the income tax would be reduced from $11,408 to $10,313. Reducing or eliminating the rate cuts would hurt high-income taxpayers the most.

### Tax Expenditures

Taxpayers who itemize deductions can reduce their taxable income by the amount of deductible expenses. In 1982, an individual with a taxable income of $40,000 would pay 28.5% of his or her income in taxes. If the taxpayer spent $100 in interest payments, the after-tax cost of the loan would be only $71.50, due to the tax savings. Eliminating deductions most affects taxpayers with high incomes.

The income value of fringe benefits is not taxed. One dollar's worth of fringe benefits is thus worth $1.40 of taxable income for someone paying 28.5% in income taxes. Actually it is worth even more, since fringe benefits escape payroll taxes as well.

**Option 4.** **Eliminate deduction for interest payments** **+$35 billion**

Dampens consumer demand by reducing taxpayer incentive to buy on credit.

**Option 5.** **Limit mortgage interest deduction to: $10,000 a year** **+$ 6 billion**
**$ 5,000** **+$31 billion**

At an interest rate of 12% yearly, a homeowner with a $42,000 mortgage would have $5,040 in interest payments that could be deducted. This provision would most affect homeowners with high mortgages and would reduce demand for expensive houses.

**Option 6.** **Eliminate state and local sales tax deductions** **+$27 billion**

Sales taxes vary across states. A family of four with a taxable income of $20,000 could deduct $348 if they live in Mississippi, but only $108 in Vermont.

**Restrict medical deduction** +$14 billion

In this option, the medical deduction is restricted only to expenses in excess of 10% of the taxpayer's gross income. Under present law, medical expenses over 3% of adjusted gross income can be deducted. At an income of $20,000 any expenses over $600 are deductible. If the minimum were increased to 10%, only expenses in excess of $2,000 would be deductible.

**Option 8.** **Tax some employer-paid health insurance** +$27 billion

Health insurance premiums that exceed $150 a month for families and $60 a month for individuals would be taxed as income. Employees with generous health insurance benefits would be most affected by this option.

**Option 9.** **Tax fringe benefits other than health and life insurance** +$ 3 billion

Examples of fringe benefits are: use of a company car, discounts on the employer's products, and reduced-price meals. The income-equivalent of such benefits would be taxed.

**Option 10.** **Tax worker's compensation benefits** +$22 billion

Most workers who suffer on-the-job injuries receive tax-free compensation for medical expenses and loss of income. This option would tax only the portion of worker's compensation that is due to income loss.

## New Taxes

**Option 11.** **Impose a national sales tax of 2%** +$125 billion

This tax would most affect low-income people who have the least ability to pay taxes and who are least able to avoid spending all their income.

**Option 12.** **Tax windfall profits on decontrolled natural gas** +$47 billion

The added cost would be passed on to consumers. Since the higher cost would cause consumers to conserve, producers would also be affected.

**Option 13.** **Impose import tariff of $4.00 per barrel of oil** +$70 billion

This tariff would add 9.5¢ to the "pump price" for a gallon of gasoline made from imported oil and would raise the cost of other refined products. A barrel contains 42 gallons.

## Other Taxes

**Option 14.** **Increase waterway user charges** +$ 4 billion

Under present law, inland waterway users are charged a tax of 6¢ per gallon of fuel. However, this covers only 8% of the expenses incurred by the U.S. Army Corps of Engineers who maintain and improve the waterways.

**Option 15.** **Double excise taxes on beer, liquor, cigarettes, telephone service, and gasoline** +$64 billion

If passed through to the consumer, prices would go up: 16¢ for a six-pack of beer, $2.62 for a quart of liquor, 8¢ for a pack of cigarettes. 1% of telephone service, and 4¢ for a gallon of gasoline. Consumers and producers of the goods would be affected the most. As a proportion of their income, poor people would pay more than rich people.

## Summary of Testimony

**Given before the House Committee on Ways and Means March 22 and 23, 1982**

### Administration Witnesses

**Secretary of the Treasury**

States that a deficit of $1 trillion is expected from 1983 through 1987, according to current estimates. This compares to $58 billion for 1981 and an expected $109 billion deficit for 1982.

Recommends limiting the deficit to $109 billion a year, thus requiring $490 billion in spending cuts or tax increases for the period 1983 through 1987. States that spending cuts of $200 billion were being sought in other legislation, but that $290 billion in additional revenue is needed.

Expresses grave concern over the size of future deficits. Huge deficits require the government to borrow ever-greater sums of money, thus forcing interest rates to climb. High interest rates discourage business investment, which hurts productivity and worsens inflation.

Recommends imposing a 2% national sales tax on consumption at the retail level. The tax would encourage a higher rate of savings, which will expand the amount of money in credit markets and thus ease interest rates. Also recommends eliminating interest deductions on consumer loans and restricting home mortgage interest deductions to discourage excessive demand for credit financing.

Urges committee to tax employer-paid health insurance premiums in excess of $150 per month for families and $60 per month for individuals. Overly extensive insurance coverage contributes to unnecessary use of health services. Limiting demand for health services will slow price increases, which is much needed in the health field.

Also recommends repealing inflation indexing provision. States that inflation diminishes government purchasing power. The built-in tax increases due to "bracket creep" stabilizes the amount of goods and services that the government will purchase in future years.

States that users should be charged the full cost for federal maintenance and improvement of inland waterways. Believes that the taxpaying public should not be required to subsidize these users.

**Director, Office of Management and Budget**

Expresses concern over the health of the economy, if the deficit is not controlled. States that the deficit is expected to grow by 19% annually. As a percent of the Gross National Product, it is expected to reach 5.0% by 1987, as compared to 3.6% in 1982 and only 2.0% in 1981.

States the budget projections depend greatly on how well the economy performs. Cites as an example, that a 1% decrease in the employment rate adds $20 billion to the federal deficit, by reducing tax revenues and increasing benefit payments.

Emphasizes that economic conditions have worsened since last summer, when the Economic Recovery Tax Act was passed. Almost the entire increase in future deficits is due to less optimistic projections for economic growth, price stability, unemployment rates and interest rates.

## Changes in Economic Assumptions

|  | Projection Date | 1982 | 1983 | 1984 |
|---|---|---|---|---|
| Gross National Product (year-to-year change) | May 1981 | 13.0% | 12.4% | 10.8% |
|  | Feb 1982 | 7.5 | 11.9 | 10.4 |
| Consumer Price Index (year-to-year change) | May 1981 | 8.3% | 6.2% | 5.5% |
|  | Feb 1982 | 7.5 | 6.9 | 6.9 |
| Unemployment Rate (annual average) | May 1981 | 7.2% | 6.6% | 6.4% |
|  | Feb 1982 | 8.9 | 8.0 | 7.4 |
| Interest Rate, 91-day T-bills (annual average) | May 1981 | 10.5% | 9.4% | 8.2% |
|  | Feb 1982 | 12.0 | 13.2 | 11.3 |

## Invited Panelists

**Economist 1**

Commends the administration for proposing use of the national sales tax, as a means to raise revenue without undue hardship for specific goods and services, as would happen if excise taxes were doubled. Also favors sales tax, since it is focused on consumption rather than savings.

Asserts that the deficit reduction goal of the administration is not adequate. Pointed out that the deficits of 1981 and expected for 1982, increased from 2.9% to 3.6% of Gross National Product (GNP). Claims that this is causing unprecedented pressure on the nation's financial markets and threatens the worst depression in post-war history. Notes that the interest rate for 30–year Treasury bonds in early February reached 14.56 percent, and that, at 16.5 percent, the prime lending rate for the most secure corporations has nearly doubled since 1977. Also speculates that excessive deficits have a psychological impact on consumers who buy more at current prices, fearing that inflation will push prices even higher.

Recommends that the deficit be held to 2.0% of GNP, requiring that an additional $117 billion in revenue be raised. Recommends adopting an import tariff on $4.00 per barrel of oil, in order to reduce gasoline consumption and dependency on foreign oil. Also recommends taxing windfall profits of decontrolled natural gas, at the rate of 60 cents per thousand cubic feet, since gas producers will gain an extra $70 billion in 1983–84 as a result of decontrol.

**Economist 2**

Opposes administration's proposal for a national sales tax, stating that savings merely is a form of deferred consumption. Claims that, in the long run, a permanent sales tax will also reduce rate of savings. Adds that sales taxes are regressive, since all income levels are taxed at the same rate.

Also opposes repeal of indexing, since it will have a regressive effect. Moderate-income taxpayer experience greatest amount of "bracket creep", since the tax brackets are closer together as compared to those for higher income levels. Failure to index exemptions and zero bracket amount will have its greatest impact on the lowest-income taxpayers.

Recommends eliminating the 1983 rate cut of 10%. Cites Congressional Budget Office study that last summer's tax reduction favors high-income taxpayers. Those making over $80,000 will average $15,250 in 1983 tax relief, or about 6.7% of their income. This compares to average tax relief of only $440 for taxpayers with incomes between $10,000 and $20,000, or about 1.3% of their income.

Also recommends eliminating deduction for interest payments and limiting mortgage interest deduction to $10,000 yearly, since both measures favor rich taxpayers and fuel inflation with excess demand and greater pressure on tight credit markets.

### Watchdog Committee for Taxpayer Justice

States opposition in general to allowing tax loopholes that favor special interest groups, very wealthy taxpayers, and their lawyers and accountants. Supports a simplified approach to taxation that includes a progressive rate structure and personal exemptions for dependents. Recommends eliminating all deductions, since they are available only to those who itemize their tax returns. Also recommends allowing a tax credit of a uniform percentage for medical expenses and charitable contributions.

More specifically, favors eliminating medical expenses and sales taxes as a deduction. Compares data for households having incomes below $10,000 with those having incomes over $100,000. Only 8% of taxpayers in the first group claimed medical deductions, for an average of $60 in tax reduction. In contrast, 58% of the richer taxpayers claimed the deduction and enjoyed an average tax break of $560 per household.

As to sales tax deductions, claims that there is no need for this deduction on the basis of ability-to-pay, since it is a small and predictable tax that does not vary significantly from one taxpayer to another. States that most taxpayers simply use the printed table to calculate their deduction, which may have no relation to actual tax paid. Sales taxes are taken into account when setting the levels for exemptions and the zero-bracket amount.

## QUIZ—MODULE 1

1. The system which relies upon all taxpayers to know and meet their tax responsibilities is called ____________________.
2. Two methods of fulfilling your tax responsibilities on a pay-as-you-go basis are ____________________ and ____________________.
3. The due date for calendar year taxpayers to file their federal tax returns is ____________________.
4. The FICA (Federal Insurance Contribution Act) tax is also called ____________________ tax.
5. The 9-digit number used to identify your account with IRS is called your ____________________.
6. To tell your employer how much to withhold from your paycheck, you will need to fill out a Form ____________________.
7. What 2 requirements must be met to claim exemption from withholding?
8. May a single individual with two jobs claim the special withholding allowance?
9. If you worked all of 1984, by what date should you receive Form W-2 from your employer?
10. If you receive income which is not subject to withholding, you may need to file Form ____________________.

# QUIZ—MODULE 2

### Quiz Problem 1 (20 Points)

Mary is single and maintains a home for herself and her mother, Ethel, age 68. Ethel received a taxable pension of $2,400, however, Mary spent $2,800 toward Ethel's support.

Mary's filing status is ______________________ .

She may claim ____________________ exemptions.

### Quiz Problem 2 (20 points)

Tom has been divorced for the past three years. He maintains a home for himself and his 5 year old son, Kevin. Tom totally supports Kevin.

Tom's filing status is ______________________ .

### Quiz Problem 3 (20 points)

Mary B. Brown is single and allowed one exemption. She lives at 187 Jones St., Smithville, Iowa 51056. Her Social Security number is 987-42-7190. She is a full time student at Lind County High School. She worked from June 5 to August 25, as a playground director for the county and earned $1200. The county withheld $69 of federal income tax from her pay. Mary also received a statement from the savings and loan which stated that $60 in interest had been credited to her savings account. Her deductions were not enough to itemize. Prepare a Form 1040EZ for Mary Brown. Mary does not want $1 to go to the Presidential Election Campaign Fund.

### Quiz Problem 4 (20 points)

Diane Dancer is single and claims one exemption on her return. Diane lives at 2 Charles Center, Baltimore, Maryland, 21201. Her social security number is 988-77-5432. Working as a sales representative, Diane earned $13,857 and had $2020 withheld in Federal income tax. She also received $210 in interest. She is not itemizing her deductions. Prepare the appropriate income tax return for Diane.

### Quiz Problem 5 (20 points)

John W. Gray (987-65-4320) is single and claiming no dependents. He is an accountant and earned $16,500. The federal income tax withheld was $1,411. John contributed $2,000 to his IRA. He does not have enough deductions to itemize, however, he did contribute $200 to his church. John's address is 110 Cherry St., Atlanta, Ga. 30300. Prepare John's tax return. John wants $1 to go to the Presidential Election Campaign Fund.

## QUIZ—MODULE 3

1. Through most of our history, taxes were usually increased to pay for ______________________________.
2. Under the Articles of Confederation, the federal government raised revenue through ______________________ from the states.
3. The Sixteenth Amendment to the constitution gave Congress the power to tax incomes without regard to ______________________________.
4. The income tax was first used to pay for the ______________________.
5. The social security program was started because of the ______________________.
6. Between the War of 1812 and the Civil War, the federal government's main source of revenue was ______________________.
7. Because of economic prosperity in the 1920's, Congress ______________________ taxes five times.
8. From 1868 to 1919, 90 percent of all internal revenue was collected through excise taxes on ______________________ and ______________________.
9. During which war was the income tax expanded to cover most income earners? ______________________
10. The Sixteenth Amendment was ratified in the year ______________________.

## QUIZ—MODULE 4

1. Money needed to pay for government services is called ______________________ and is mostly raised through ______________________ ______________________.
2. The federal government relies mainly on the ______________________ tax for its revenue.
3. Local government collects most of its revenue through the ______________________ tax.
4. The largest expense category in the federal government is ______________________.
5. The two main types of consumption taxes are ______________________ and ______________________.
6. Regulating the quality or safety of goods and services is done to ______________________ ______________________.
7. Because sales and excise taxes are the same for people of all income levels, they are often called ______________________.
8. To lower their taxes, taxpayers can subtract ______________________ and itemized ______________________ from their gross income.
9. Services that are more efficiently provided without competition are called ______________________ ______________________.
10. In a progressive income tax, the ______________________ ______________________ increases as taxable income increases.

# QUIZ—MODULE 5

1. Proposed legislation is called a ____________________.
2. Citizens have the power to remove legislators through exercising their right to ________ ____________________.
3. The two types of pressure groups are called ____________________ interest groups and ____________________ interest groups.
4. When pressure groups try to influence legislation, it is called ________________ ____________________.
5. In the House of Representatives, the ________ ____________________ Committee has the responsibility for tax legislation.
6. In hearings on tax legislation, the Secretary of the ____________________ is usually called to testify.
7. The President often mentions major tax changes in his ____________________ ____________________ message.
8. Most recommendations for new tax legislation come from ____________________.
9. Differences between bills passed by the House and Senate are resolved through ________ ____________________.
10. According to the Constitution, all legislation concerning taxes must originate in the ____________________.

# QUIZ—MODULE 6

1. The state of Wisconsin was the first to establish a ______________________________ tax.
2. Income taxes which are assessed at the same percentage for everyone is called the ______________________________ method.
3. Income taxes which are assessed at a higher percentage on higher income is called the ______________________________ method.
4. A tax imposed on the transfer of property after the owner's death is called ______________________________ tax.
5. A sales tax assessed on the person doing business is called a ______________________________ tax.
6. A sales tax imposed on the retail sale of goods is called a ______________________________ tax.
7. Land and buildings are called ______________________________ property.
8. The majority of local government revenue comes from ______________________________ taxes.
9. Fuel tax is an example of a ______________________________ tax.
10. The graduated rate method of computing income tax is an example of a ______________________________ tax.

# Answers to Quizzes

## Module 1

1. voluntary compliance
2. withholding
   estimated tax payments
3. April 15
4. social security
5. social security number
6. W–4
7. no tax liability last year and no expectation of a tax liability for current year.
8. Only if 90% or more of total wages come from one job.
9. January 31
10. 1040–ES

## Module 2

1. Single; 1
2. Head of Household, 2
3. See Exhibit 2–I
4. See Exhibit 2–J
5. See Exhibit 2–K, 2–L

## Module 3

1. wars
2. donations
3. state population
4. Civil War
5. Great Depression
6. tariffs
7. cut
8. tobacco
   alcohol
9. World War II
10. 1913

## Module 4

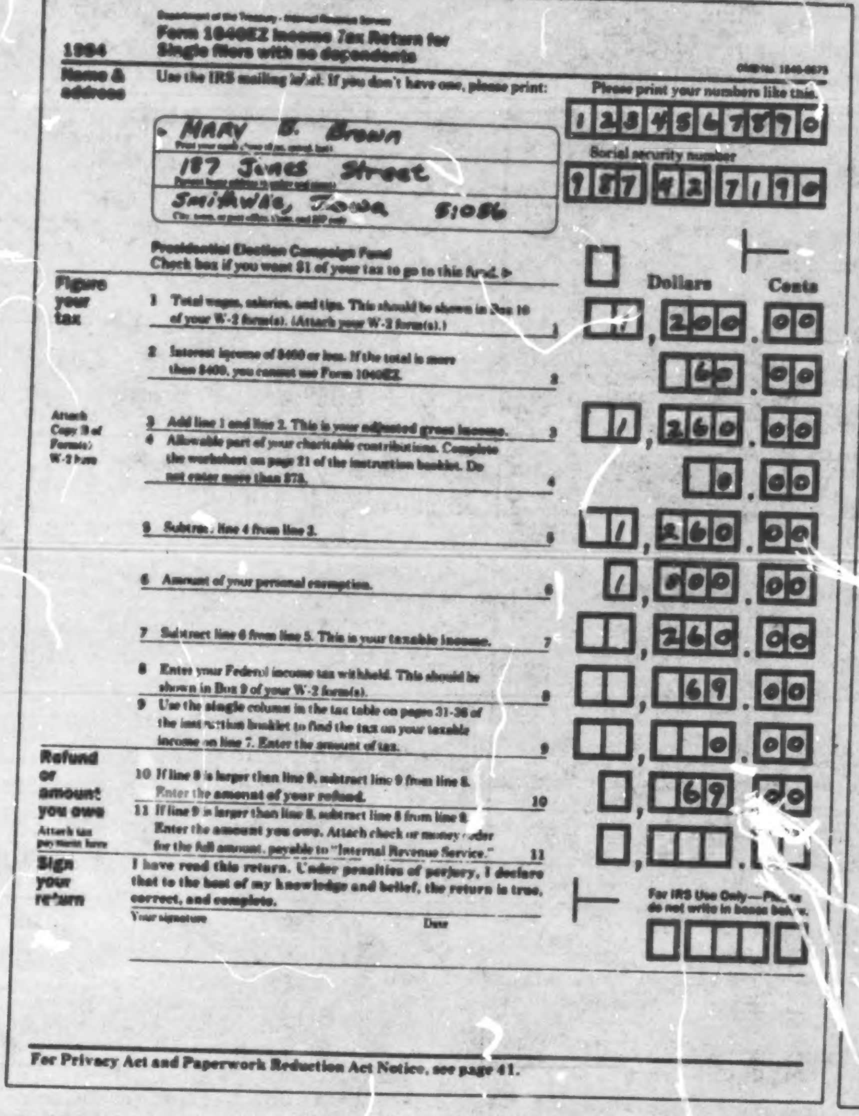
1. revenue
   taxes
2. income
3. property
4. income security programs
5. sales
   excise
6. protect consumers
7. regressive
8. exemptions
   deductions
9. natural monopolies
10. tax rate

## Module 5

1. bill
2. vote
3. special
   public
4. lobbying
5. Ways and Means
6. Treasury
7. State of the Union
8. the President
9. conference committee
10. House of Representatives

## Module 6

1. personal income
2. flat rate
3. graduated rate
4. inheritance
5. vendor
6. consumer
7. real
8. property
9. use
10. progressive



Department of the Treasury - Internal Revenue Service

**1984** **Form 1040EZ Income Tax Return for Single filers with no dependents**

OMB No. 1545-0675

**Name & address** Use the IRS mailing label. If you don't have one, please print:

Please print your numbers like this. 1 2 3 4 5 6 7 8 9 0

MARY B. Brown
Print your name (first, initial, last)
187 Jones Street
Present home address (number and street)
Smithville, Iowa 51056
City, town, or post office, State, and ZIP code

Social security number 987 42 7196

Presidential Election Campaign Fund
Check box if you want $1 of your tax to go to this fund. ▶ ☐

**Figure your tax**

Attach Copy B of Form(s) W-2 here

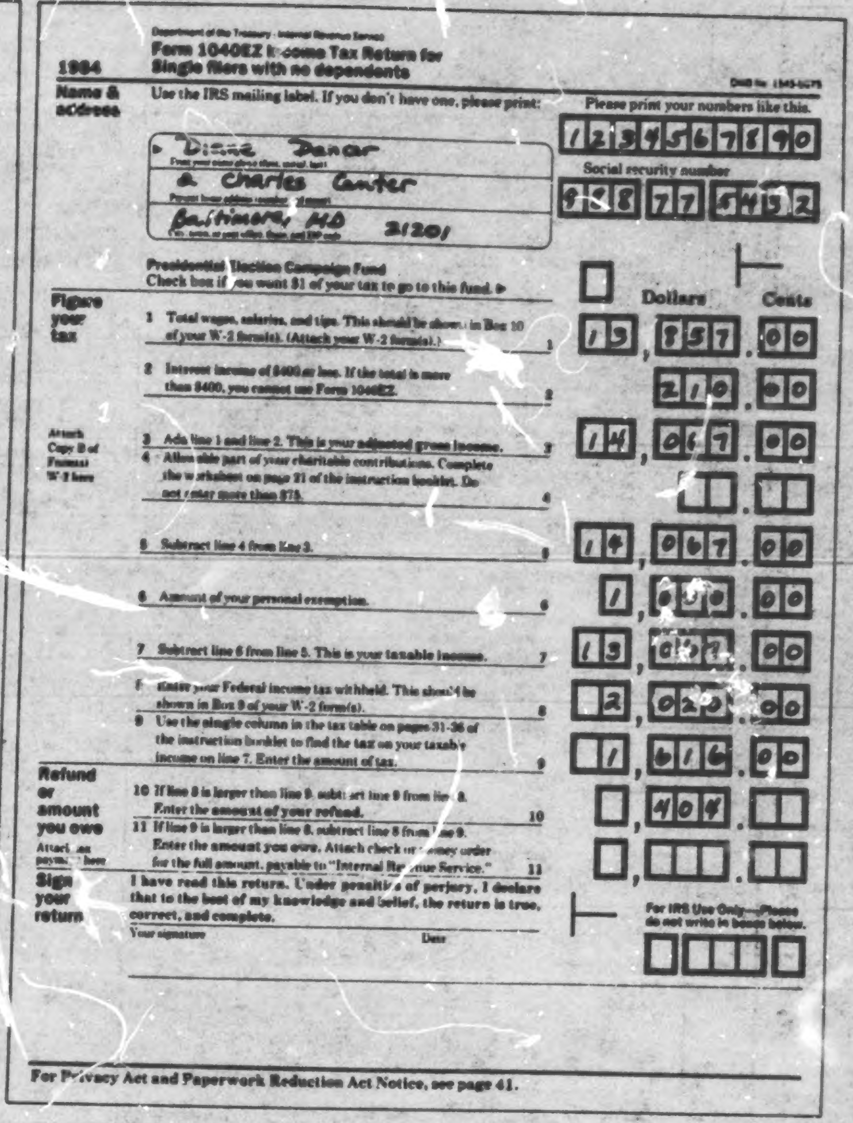
| | | Dollars | Cents |
|---|---|---|---|
| 1 Total wages, salaries, and tips. This should be shown in Box 10 of your W-2 form(s). (Attach your W-2 form(s).) | 1 | 1,200 | 00 |
| 2 Interest income of $400 or less. If the total is more than $400, you cannot use Form 1040EZ. | 2 | 60 | 00 |
| 3 Add line 1 and line 2. This is your adjusted gross income. | 3 | 1,260 | 00 |
| 4 Allowable part of your charitable contributions. Complete the worksheet on page 21 of the instruction booklet. Do not enter more than $75. | 4 | 0 | 00 |
| 5 Subtract line 4 from line 3. | 5 | 1,260 | 00 |
| 6 Amount of your personal exemption. | 6 | 1,000 | 00 |
| 7 Subtract line 6 from line 5. This is your taxable income. | 7 | 260 | 00 |
| 8 Enter your Federal income tax withheld. This should be shown in Box 9 of your W-2 form(s). | 8 | 69 | 00 |
| 9 Use the single column in the tax table on pages 31-36 of the instruction booklet to find the tax on your taxable income on line 7. Enter the amount of tax. | 9 | 0 | 00 |
| **Refund or amount you owe** 10 If line 8 is larger than line 9, subtract line 9 from line 8. Enter the amount of your refund. | 10 | 69 | 00 |
| 11 If line 9 is larger than line 8, subtract line 8 from line 9. Enter the amount you owe. Attach check or money order for the full amount, payable to "Internal Revenue Service." Attach tax payment here | 11 | | |

**Sign your return** I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and complete.

Your signature Date

For IRS Use Only—Please do not write in boxes below.

For Privacy Act and Paperwork Reduction Act Notice, see page 41.



Department of the Treasury - Internal Revenue Service

**1984** **Form 1040EZ Income Tax Return for Single filers with no dependents**

OMB No. 1545-0675

**Name & address** Use the IRS mailing label. If you don't have one, please print:

Please print your numbers like this. 1 2 3 4 5 6 7 8 9 0

Diane Dancer
Print your name (first, initial, last)
2 Charles Center
Present home address (number and street)
Baltimore, MD 21201
City, town, or post office, State, and ZIP code

Social security number 988 77 5432

Presidential Election Campaign Fund
Check box if you want $1 of your tax to go to this fund. ▶ ☐

**Figure your tax**

Attach Copy B of Form(s) W-2 here

| | | Dollars | Cents |
|---|---|---|---|
| 1 Total wages, salaries, and tips. This should be shown in Box 10 of your W-2 form(s). (Attach your W-2 form(s).) | 1 | 13,857 | 00 |
| 2 Interest income of $400 or less. If the total is more than $400, you cannot use Form 1040EZ. | 2 | 210 | 00 |
| 3 Add line 1 and line 2. This is your adjusted gross income. | 3 | 14,067 | 00 |
| 4 Allowable part of your charitable contributions. Complete the worksheet on page 21 of the instruction booklet. Do not enter more than $75. | 4 | | |
| 5 Subtract line 4 from line 3. | 5 | 14,067 | 00 |
| 6 Amount of your personal exemption. | 6 | 1,000 | 00 |
| 7 Subtract line 6 from line 5. This is your taxable income. | 7 | 13,067 | 00 |
| 8 Enter your Federal income tax withheld. This should be shown in Box 9 of your W-2 form(s). | 8 | 2,020 | 00 |
| 9 Use the single column in the tax table on pages 31-36 of the instruction booklet to find the tax on your taxable income on line 7. Enter the amount of tax. | 9 | 1,616 | 00 |
| **Refund or amount you owe** 10 If line 8 is larger than line 9, subtract line 9 from line 8. Enter the amount of your refund. | 10 | 404 | |
| 11 If line 9 is larger than line 8, subtract line 8 from line 9. Enter the amount you owe. Attach check or money order for the full amount, payable to "Internal Revenue Service." Attach tax payment here | 11 | | |

**Sign your return** I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and complete.

Your signature Date

For IRS Use Only—Please do not write in boxes below.

For Privacy Act and Paperwork Reduction Act Notice, see page 41.

BEST COPY AVAILABLE

Department of the Treasury—Internal Revenue Service

**1984** **Form 1040A US Individual Income Tax Return**

OMB No. 1545-0085

**Step 1**
**Name and address**

Use the IRS mailing label. If you don't have one, print or type:

Your first name and initial (if joint return, also give spouse's name and initial) — John W. | Last name — Gray | Your social security no. — 987-65-4320

Present home address (number and street) — 110 Cherry Street | Spouse's social security no.

City, town or post office, State, and ZIP code — Atlanta, GA 30300

**Presidential Election Campaign Fund**

Do you want $1 to go to this fund? ☒ Yes ☐ No

If joint return, does your spouse want $1 to go to this fund? ☐ Yes ☐ No

**Step 2**
**Check your filing status**
(Check only one)

1 ☒ Single (See if you can use Form 1040EZ.)

2 ☐ Married filing joint return (even if only one had income)

3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ______

4 ☐ Head of household (with qualifying person). If the qualifying person is your unmarried child but not your dependent, write this child's name here. ______

**Step 3**
**Figure your exemptions**

Always check the exemption box labeled Yourself. Check other boxes if they apply.

5a ☒ Yourself ☐ 65 or over ☐ Blind

b ☐ Spouse ☐ 65 or over ☐ Blind — Write number of boxes checked on 5a and b — 1

c First names of your dependent children who lived with you ______ — Write number of children listed on 5c — .

d Other dependents:

| 1. Name | 2. Relationship | 3. Number of months lived in your home | 4. Did dependent have income of $1,000 or more? | 5. Did you provide more than one-half of dependent's support? |
|---|---|---|---|---|
| | | | | |
| | | | | |

Write number of other dependents listed on 5d — .

Attach Copy B of Form(s) W-2 here

e Total number of exemptions claimed. (Also complete line 18.) — Add numbers entered on lines above — 1

**Step 4**
**Figure your total income**

6 Total wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) — 6 16,500.00

7 Interest income. (If the total is over $400, also complete and attach Schedule 1 (Form 1040A), Part I.) — 7 .

8a Dividends. (If the total is over $400, also complete and attach Schedule 1 (Form 1040A), Part II.) — 8a

Attach check or money order here

b Exclusion. See the instructions on page 16. — 8b .

c Subtract line 8b from line 8a. Write the result. — 8c .

9a Unemployment compensation (insurance), from Form(s) 1099-G. Total received. — 9a .

b Taxable amount, if any, from the worksheet on page 17 of the instructions. — 9b .

10 Add lines 6, 7, 8c, and 9b. Write the total. This is your total income. — 10 16,500.00

**Step 5**
**Figure your adjusted gross income**

11a Individual retirement arrangement (IRA) deduction, from the worksheet on page 19. — 11a 2,000.00

b Write IRA payments made in 1985 that you included on line 11a: ($ . )

12 Deduction for a married couple when both work. Complete and attach Schedule 1 (Form 1040A), Part III. — 12 .

13 Add lines 11a and 12. Write the total. These are your total adjustments. — 13 2,000.00

14 Subtract line 13 from line 10. Write the result. This is your adjusted gross income. — 14 14,500.00

---

**1984** **Form 1040A**

Page 2

**Step 6**
**Figure your taxable income**

15 Write the amount from line 14. — 15 14,500.00

16 Allowable part of your charitable contributions, from the worksheet on page 21 of the instructions. — 16 50.00

17 Subtract line 16 from line 15. Write the result. — 17 14,450.00

18 Multiply $1,000 by the total number of exemptions claimed on line 5e. — 18 1,000.00

19 Subtract line 18 from line 17. Write the result. This is your taxable income. — 19 13,450.00

**Step 7**
**Figure your tax, credits, and payments**

**If You Want IRS to Figure Your Tax, See Page 21 of the Instructions.**

20 Find the tax on the amount on line 19. Use the tax table, pages 31–36. — 20 1,696.00

21a Credit for child and dependent care expenses. Complete and attach Schedule 1 (Form 1040A), Part IV. — 21a .

b Partial credit for political contributions for which you have receipts. See page 24 of the instructions. — 21b .

22 Add lines 21a and 21b. Write the total. — 22 0.00

23 Subtract line 22 from line 20. Write the result (but not less than zero). This is your total tax. — 23 1696.00

24a Total Federal income tax withheld. This should be shown in Box 9 of your W-2 form(s). (If line 6 is more than $37,800, see page 24 of the instructions.) — 24a 1,411.00

b Earned income credit, from the worksheet on page 26 of the instructions. See page 25 of the instructions. — 24b .

25 Add lines 24a and 24b. Write the total. These are your total payments. — 25 1411.00

**Step 8**
**Figure your refund or amount you owe**

26 If line 25 is larger than line 23, subtract line 23 from line 25. Write the result. This is the amount of your refund. — 26 .

27 If line 23 is larger than line 25, subtract line 25 from line 23. Write the result. This is the amount you owe. Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number and "1984 Form 1040A" on it. — 27 285.00

**Step 9**
**Sign your return**

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature X — Date — Your occupation: Accountant

Spouse's signature (if joint return, both must sign) X — Date — Spouse's occupation

Paid preparer's signature X — Date — Preparer's social security no.

Firm's name (or yours, if self-employed) — Employer identification no.

Address and ZIP code — Check if self-employed ☐

For Privacy Act and Paperwork Reduction Act Notice, see page 41.

**Line 16. Charitable contributions (continued)**

*Here is a sample worksheet showing how the Browns figure their deduction. They gave $60 to qualified charities.*

## SAMPLE

| | | |
|---|---|---|
| A. Cash contributions (including checks, money orders, etc.). | A. | 60.00 |
| B. Contributions of property. | B. + | -0-. |
| C. Add lines A and B. Do not write more than $300 ($150 if married filing separately). | C. = | 60.00 |
| D. Percentage used to figure the deduction (25%). | D. | x .25 |
| E. Multiply the amount on line C by the percentage on line D. Write your answer here and on Form 1040A, line 16 (or on Form 1040EZ, line 4). | E. = | 15.00 |

Had the Browns given more than $300, their deduction on line 16 would have been limited to $75. This is because the deduction cannot be more than $75.

**Worksheet to figure your charitable contributions deduction**
(keep for your records)

| | | |
|---|---|---|
| A. Cash contributions (including checks, money orders, etc.). | A. | 200 .00 |
| B. Contributions of property. | B. + | 0 .00 |
| C. Add lines A and B. Do not write more than $300 ($150 if married filing separately). | C. = | 200 .00 |
| D. Percentage used to figure the deduction (25%). | D. | x .25 |
| E. Multiply the amount on line C by the percentage on line D. Write your answer here and on Form 1040A, line 16 (or on Form 1040EZ, line 4). | E. = | 50 .00 |

**Line 18. Exemptions**

You are entitled to a $1,000 deduction for each exemption you can take. Multiply $1,000 by the number of exemptions shown on line 5e. Write this amount on line 18.

**Line 19. Taxable income**

Subtract line 18 from line 17. This is your taxable income. Your tax is figured on this amount.

**IRS will figure your tax and your earned income credit for you**

If you want, we will figure your tax for you. If it turns out that you have paid too much tax, we will send you a refund. If you did not pay enough tax, we'll send you a bill. We won't charge you interest or a late payment penalty if you pay within 30 days of the notice date or by the due date for your return, whichever is later.

To have IRS figure your tax for you—

1. Fill in the parts of the return through line 19 that apply to you.
2. If you file a joint return, use the space in the margin to the left of line 19 to show your own taxable income and that of your spouse.
3. Complete lines 21a, 21b, and 24a if they apply to you. If you received any advance earned income credit (EIC) payments, in the space to the left of line 23 entry space, write "AEIC" and show the amount of the payment. Your Form(s) W-2 will show these payments.
4. Attach the first copy or Copy B of all your W-2 forms.
5. Complete and attach Schedule 1 of Form 1040A if required.
6. Sign and date your return (both spouses must sign a joint return).
7. Mail your return by April 15, 1985.

If you can take the earned income credit (see line 24b instructions), we can figure it for you too. If you don't have to file a return, but are filing only to take the earned income credit, follow all of the above instructions.

Department of the Treasury - Internal Revenue Service

**1984** **Form 1040EZ Income Tax Return for Single filers with no dependents**

OMB No. 1545-0675

**Name & address**

Use the IRS mailing label. If you don't have one, please print:

▶

Print your name above (first, initial, last)

Present home address (number and street)

City, town, or post office, State, and ZIP code

Please print your numbers like this.

1 2 3 4 5 6 7 8 9 0

Social security number

☐☐☐ ☐☐ ☐☐☐☐

**Presidential Election Campaign Fund**
Check box if you want $1 of your tax to go to this fund. ▶ ☐

**Figure your tax**

| | | Dollars | Cents |
|---|---|---|---|
| 1 | Total wages, salaries, and tips. This should be shown in Box 10 of your W-2 form(s). (Attach your W-2 form(s).) 1 | | |
| 2 | Interest income of $400 or less. If the total is more than $400, you cannot use Form 1040EZ. 2 | | |
| 3 | Add line 1 and line 2. This is your **adjusted gross income.** 3 | | |
| 4 | Allowable part of your charitable contributions. Complete the worksheet on page 21 of the instruction booklet. Do not enter more than $75. 4 | | |
| 5 | Subtract line 4 from line 3. 5 | | |
| 6 | Amount of your personal exemption. 6 | 1,000 | 00 |
| 7 | Subtract line 6 from line 5. This is your **taxable income.** 7 | | |
| 8 | Enter your Federal income tax withheld. This should be shown in Box 9 of your W-2 form(s). 8 | | |
| 9 | Use the **single** column in the tax table on pages 31-36 of the instruction booklet to find the **tax** on your taxable income on line 7. Enter the amount of tax. 9 | | |

Attach Copy B of Form(s) W-2 here

**Refund or amount you owe**

Attach tax payment here

| | | Dollars | Cents |
|---|---|---|---|
| 10 | If line 8 is larger than line 9, subtract line 9 from line 8. Enter the **amount of your refund.** 10 | | |
| 11 | If line 9 is larger than line 8, subtract line 8 from line 9. Enter the **amount you owe.** Attach check or money order for the full amount, payable to "Internal Revenue Service." 11 | | |

**Sign your return**

**I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and complete.**

Your signature Date

**For IRS Use Only—Please do not write in boxes below.**

1 2 3 4 5

**For Privacy Act and Paperwork Reduction Act Notice, see page 41.**

**1984** Department of the Treasury—Internal Revenue Service

# Form 1040A US Individual Income Tax Return

OMB No. 1545-0085

**Step 1**
**Name and address**

Use the IRS mailing label. If you don't have one, print or type:

Your first name and initial (if joint return, also give spouse's name and initial) | Last name | Your social security no.

Present home address (number and street) | Spouse's social security no.

City, town or post office, State, and ZIP code

**Presidential Election Campaign Fund**

Do you want $1 to go to this fund? . . . . . . . . . . . . . . . . . . . ☐ Yes ☐ No

If joint return, does your spouse want $1 to go to this fund? ☐ Yes ☐ No

**Step 2**
**Check your filing status**
(Check only one)

1 ☐ Single (See if you can use Form 1040EZ.)

2 ☐ Married filing joint return (even if only one had income)

3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ____________

4 ☐ Head of household (with qualifying person). If the qualifying person is your unmarried child but not your dependent, write this child's name here. ____________

**Step 3**
**Figure your exemptions**

Always check the exemption box labeled Yourself. Check other boxes if they apply.

5a ☐ Yourself ☐ 65 or over ☐ Blind

b ☐ Spouse ☐ 65 or over ☐ Blind

Write number of boxes checked on 5a and b ______

c First names of your dependent children who lived with you ____________

Write number of children listed on 5c + ______

d Other dependents:

| 1. Name | 2. Relationship | 3. Number of months lived in your home. | 4. Did dependent have income of $1,000 or more? | 5. Did you provide more than one-half of dependent's support? |
|---|---|---|---|---|
| | | | | |
| | | | | |

Attach Copy B of Form(s) W-2 here

Write number of other dependents listed on 5d + ______

e Total number of exemptions claimed. (Also complete line 18.)

Add numbers entered on lines above = ______

**Step 4**
**Figure your total income**

6 Total wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) 6 .

7 Interest income. (If the total is over $400, also complete and attach Schedule 1 (Form 1040A), Part I.) 7 .

8a Dividends. (If the total is over $400, also complete and attach Schedule 1 (Form 1040A), Part II.) 8a .

Attach check or money order here

b Exclusion. See the instructions on page 16. 8b .

c Subtract line 8b from line 8a. Write the result. 8c .

9a Unemployment compensation (insurance), from Form(s) 1099-G. Total received. 9a .

b Taxable amount, if any, from the worksheet on page 17 of the instructions. 9b .

10 Add lines 6, 7, 8c, and 9b. Write the total. This is your **total income**. 10 .

**Step 5**
**Figure your adjusted gross income**

11a Individual retirement arrangement (IRA) deduction, from the worksheet on page 19. 11a .

b Write IRA payments made in 1985 that you included on line 11a: ($ . )

12 Deduction for a married couple when both work. Complete and attach Schedule 1 (Form 1040A), Part III. 12 .

13 Add lines 11a and 12. Write the total. These are your **total adjustments**. 13 .

14 Subtract line 13 from line 10. Write the result. This is your **adjusted gross income**. 14 .

129A

**1984** **Form 1040A** Page 2

**Step 6**
**Figure your taxable income**

15 Write the amount from line 14. 15

16 Allowable part of your charitable contributions, from the worksheet on page 21 of the instructions. 16

17 Subtract line 16 from line 15. Write the result. 17

18 Multiply $1,000 by the total number of exemptions claimed on line 5e. 18

19 Subtract line 18 from line 17. Write the result. This is your **taxable income.** 19

**Step 7**
**Figure your tax, credits, and payments**

**If You Want IRS to Figure Your Tax, See Page 21 of the Instructions.**

20 Find the tax on the amount on line 19. Use the tax table, pages 31–36. 20

21a Credit for child and dependent care expenses. Complete and attach Schedule 1 (Form 1040A), Part IV. 21a

b Partial credit for political contributions for which you have receipts. See page 24 of the instructions. 21b

22 Add lines 21a and 21b. Write the total. 22

23 Subtract line 22 from line 20. Write the result (but not less than zero). This is your **total tax.** 23

24a Total Federal income tax withheld. This should be shown in Box 9 of your W-2 form(s). (If line 6 is more than $37,800, see page 24 of the instructions.) 24a

b Earned income credit, from the worksheet on page 26 of the instructions. See page 25 of the instructions. 24b

25 Add lines 24a and 24b. Write the total. These are your **total payments.** 25

**Step 8**
**Figure your refund or amount you owe**

26 If line 25 is larger than line 23, subtract line 23 from line 25. Write the result. This is the **amount of your refund.** 26

27 If line 23 is larger than line 25, subtract line 25 from line 23. Write the result. This is the **amount you owe.** Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number and "1984 Form 1040A" on it. 27

**Step 9**
**Sign your return**

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature Date Your occupation

X

Spouse's signature (if joint return, both must sign) Date Spouse's occupation

X

Paid preparer's signature Date Preparer's social security no.

X

Firm's name (or yours, if self-employed) Employer identification no.

Address and ZIP code Check if self-employed ☐

For Privacy Act and Paperwork Reduction Act Notice, see page 41.

**1984** **Schedule 1 (Form 1040A)** OMB No. 1545-0085

**Part I—Interest Income**
**Part II—Dividend Income**
**Part III—Deduction for a Married Couple When Both Work**
**Part IV—Credit for Child and Dependent Care Expenses**

Name(s) as shown on Form 1040A. Your social security number

**You MUST complete and attach Schedule 1 to Form 1040A if you:**

- Have over $400 of interest income (complete Part I)
- Have over $400 of dividend income (complete Part II)
- Claim the deduction for a working married couple (complete Part III)
- Claim the credit for child and dependent care expenses (complete Part IV)

## Part I **Interest Income** (See page 15)

Complete this part and attach Schedule 1 to Form 1040A if you received over $400 in interest income. If you received any interest from an All-Savers Certificate (ASC), use Form 1040 instead of Form 1040A.

| 1 List name of payer | Amount |
|---|---|
| | $ . |
| | $ . |
| | $ . |
| | $ . |
| | $ . |
| | $ . |
| | $ . |
| | $ . |
| | $ . |
| | $ . |

2 Add amounts on line 1. Write the total here and on Form 1040A, line 7. 2 .

## Part II **Dividend Income** (See page 16)

Complete this part and attach Schedule 1 to Form 1040A if you received over $400 in dividends.

| 1 List name of payer | Amount |
|---|---|
| | $ . |
| | $ . |
| | $ . |
| | $ . |
| | $ . |
| | $ . |
| | $ . |
| | $ . |
| | $ . |

2 Add amounts on line 1. Write the total here and on Form 1040A, line 8a. 2 .

## Part III **Deduction for a married couple when both work** (See page 20)

Complete this part to figure the amount you can deduct on Form 1040A, line 12. Attach Schedule 1 to Form 1040A.

| | | (a) You | (b) Your spouse |
|---|---|---|---|
| 1 | Wages, salaries, tips, etc., from Form 1040A, line 6. | 1 . | . |
| 2 | IRA deduction, from Form 1040A, line 11a. | 2 — . | — . |
| 3 | Subtract line 2 from line 1. Write the result. | 3 = . | = . |
| 4 | Write the amount from line 3, column (a) or (b) above, whichever is smaller. | | 4 . |
| 5 | Percentage used to figure the deduction (10%). | | 5 × .10 |
| 6 | Multiply the amount on line 4 by the percentage on line 5. Write your answer here and on Form 1040A, line 12. | | 6 = . |

Form **1040** Department of the Treasury—Internal Revenue Service
# U.S. Individual Income Tax Return 1984

For the year January 1-December 31, 1984, or other tax year beginning , 1984, ending , 19 OMB No. 1545-0074

**Use IRS label. Otherwise, please print or type.**

Your first name and initial (if joint return, also give spouse's name and initial) Last name Your social security number

Present home address (Number and street, including apartment number, or rural route) Spouse's social security number

City, town or post office, State, and ZIP code Your occupation

Spouse's occupation

**Presidential Election Campaign** ▶ Do you want $1 to go to this fund? ☐ Yes ☐ No

If joint return, does your spouse want $1 to go to this fund? ☐ Yes ☐ No

*Note: Checking "Yes" will not change your tax or reduce your refund.*

**For Privacy Act and Paperwork Reduction Act Notice, see Instructions.**

## Filing Status

Check only one box.

1 ☐ Single

2 ☐ Married filing joint return (even if only one had income)

3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. ________

4 ☐ Head of household (with qualifying person). (See page 5 of Instructions.) If the qualifying person is your unmarried child but not your dependent, write child's name here. ________

5 ☐ Qualifying widow(er) with dependent child (Year spouse died ▶ 19 ). (See page 6 of Instructions.)

## Exemptions

Always check the box labeled Yourself. Check other boxes if they apply.

6a ☐ Yourself ☐ 65 or over ☐ Blind

b ☐ Spouse ☐ 65 or over ☐ Blind

Enter number of boxes checked on 6a and b ▶ ☐

c First names of your dependent children who lived with you ________

Enter number of children listed on 6c ▶ ☐

d Other dependents:

| (1) Name | (2) Relationship | (3) Number of months lived in your home | (4) Did dependent have income of $1,000 or more? | (5) Did you provide more than one-half of dependent's support? |
|---|---|---|---|---|
| | | | | |
| | | | | |

Enter number of other dependents ▶ ☐

e Total number of exemptions claimed (also complete line 36).

Add numbers entered in boxes above ▶ ☐

## Income

Please attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 4 of Instructions.

Please attach check or money order here.

7 Wages, salaries, tips, etc. . . . 7

8 Interest income *(also attach Schedule B if over $400)* . . . 8

9a Dividends *(also attach Schedule B if over $400)* ________ , 9b Exclusion ________

c Subtract line 9b from line 9a and enter the result . . . 9c

10 Refunds of State and local income taxes, from the worksheet on page 9 of Instructions *(do not enter an amount unless you itemized deductions for those taxes in an earlier year—see page 9)* . . . 10

11 Alimony received . . . 11

12 Business income or (loss) *(attach Schedule C)* . . . 12

13 Capital gain or (loss) *(attach Schedule D)* . . . 13

14 40% of capital gain distributions not reported on line 13 (see page 9 of Instructions) . . . 14

15 Supplemental gains or (losses) *(attach Form 4797)* . . . 15

16 Fully taxable pensions, IRA distributions, and annuities not reported on line 17 . . . 16

17a Other pensions and annuities, including rollovers. Total received 17a

b Taxable amount, if any, from the worksheet on page 10 of Instructions . . . 17b

18 Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)* . . . 18

19 Farm income or (loss) *(attach Schedule F)* . . . 19

20a Unemployment compensation (insurance). Total received . . . 20a

b Taxable amount, if any, from the worksheet on page 10 of Instructions . . . 20b

21a Social security benefits. (see page 10 of Instructions) . . . 21a

b Taxable amount, if any, from the worksheet on page 11 of Instructions . . . 21b

22 Other income (state nature and source—see page 11 of Instructions) ________ 22

23 Add lines 7 through 22. This is your **total income** . . . ▶ 23

## Adjustments to Income

(See Instructions on page 11.)

24 Moving expense *(attach Form 3903 or 3903F)* . . . 24

25 Employee business expenses *(attach Form 2106)* . . . 25

26a IRA deduction, from the worksheet on page 12 . . . 26a

b Enter here IRA payments you made in 1985 that are included in line 26a above ▶

27 Payments to a Keogh *(H.R. 10)* retirement plan . . . 27

28 Penalty on early withdrawal of savings . . . 28

29 Alimony paid . . . 29

30 Deduction for a married couple when both work *(attach Schedule W)* 30

31 Add lines 24 through 30. These are your **total adjustments** . . . ▶ 31

## Adjusted Gross Income

32 Subtract line 31 from line 23. *This is your* **adjusted gross income.** *If this line is less than $10,000, see "Earned Income Credit" (line 59) on page 16 of Instructions. If you want IRS to figure your tax, see page 12 of Instructions.* ▶ 32

**Tax Computation**

(See instructions on page 13.)

33 Amount from line 32 (adjusted gross income) . . . . . . . . . . 33

34a If you itemize, attach Schedule A (Form 1040) and enter the amount from Schedule A, line 26 . . . 34a

Caution: If you have unearned income and can be claimed as a dependent on your parent's return, check here ▶ ☐ and see page 13 of the Instructions. Also see page 13 if:
- You are married filing a separate return and your spouse itemizes deductions, OR
- You file Form 4563, OR
- You are a dual-status alien.

34b If you do not itemize deductions, and you have charitable contributions, complete the worksheet on page 14. Then enter the allowable part of your contributions here . . . 34b

35 Subtract line 34a or 34b, whichever applies, from line 33 . . . 35

36 Multiply $1,000 by the total number of exemptions claimed on Form 1040, line 6e . . . . 36

37 Taxable Income. Subtract line 36 from line 35. . . . 37

38 Tax. Enter tax here and check if from ☐ Tax Table, ☐ Tax Rate Schedule X, Y, or Z, or ☐ Schedule G . . . 38

39 Additional Taxes. (See page 14 of Instructions.) Enter here and check if from ☐ Form 4970, ☐ Form 4972, or ☐ Form 5544 . . . 39

40 Add lines 38 and 39. Enter the total . . . . . . . ▶ 40

**Credits**

(See instructions on page 14.)

41 Credit for child and dependent care expenses *(attach Form 2441)* 41

42 Credit for the elderly and the permanently and totally disabled *(attach Schedule R)* . . . 42

43 Residential energy credit *(attach Form 5695)* . . . 43

44 Partial credit for political contributions for which you have receipts 44

45 Add lines 41 through 44. These are your total personal credits . . . . 45

46 Subtract line 45 from 40. Enter the result (but not less than zero) . . . 46

47 Foreign tax credit *(attach Form 1116)* . . . . . 47

48 General business credit. Check if from ☐ Form 3800, ☐ Form 3468, ☐ Form 5884, ☐ Form 6478 48

49 Add lines 47 and 48. These are your total business and other credits . . . 49

50 Subtract line 49 from 46. Enter the result (but not less than zero). . . . ▶ 50

**Other Taxes**

(Including Advance EIC Payments)

51 Self-employment tax *(attach Schedule SE)*. . . . 51

52 Alternative minimum tax *(attach Form 6251)* . . . . 52

53 Tax from recapture of investment credit *(attach Form 4255)* . . . 53

54 Social security tax on tip income not reported to employer *(attach Form 4137)* . . . 54

55 Tax on an IRA *(attach Form 5329)* . . . . 55

56 Add lines 50 through 55. This is your **total tax** . . . . ▶ 56

**Payments**

Attach Forms W-2, W-2G, and W-2P to front.

57 Federal income tax withheld . . . . . . 57

58 1984 estimated tax payments and amount applied from 1983 return. 58

59 Earned income credit. If line 33 is under $10,000, see page 16 . 59

60 Amount paid with Form 4868 . . . . . 60

61 Excess social security tax and RRTA tax withheld (two or more employers) . . . 61

62 Credit for Federal tax on gasoline and special fuels *(attach Form 4136)* . 62

63 Regulated Investment Company credit *(attach Form 2439)* . . 63

64 Add lines 57 through 63. These are your **total payments** . . . . ▶ 64

**Refund or Amount You Owe**

65 If line 64 is larger than line 56, enter amount **OVERPAID** . . . . ▶ 65

66 Amount of line 65 to be **REFUNDED TO YOU** . . . . ▶ 66

67 Amount of line 65 to be applied to your 1985 estimated tax . . . ▶ 67

68 If line 56 is larger than line 64, enter **AMOUNT YOU OWE.** Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number and "1984 Form 1040" on it . . ▶ 68

(Check ▶ ☐ if Form 2210 (2210F) is attached. See page 17 of Instructions.) $

**Please Sign Here**

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Your signature | Date

▶ Spouse's signature (if filing jointly, BOTH must sign)

**Paid Preparer's Use Only**

Preparer's signature ▶ | Date | Check if self-employed ☐ | Preparer's social security no.

Firm's name (or yours, if self-employed) and address ▶ | E.I. No.

ZIP code

**SCHEDULES A&B (Form 1040)**
Department of the Treasury
Internal Revenue Service

# Schedule A—Itemized Deductions

**(Schedule B is on back)**

**▶ Attach to Form 1040. ▶ See Instructions for Schedules A and B (Form 1040).**

OMB No. 1545-0074

**1984**
07

Name(s) as shown on Form 1040

Your social security number

| | | | | |
|---|---|---|---|---|
| **Medical and Dental Expenses**<br>**(Do not include expenses reimbursed or paid by others.)**<br>(See Instructions on page 19) | 1 | Prescription medicines and drugs; and insulin | 1 | |
| | 2 a | Doctors, dentists, nurses, hospitals, insurance premiums you paid for medical and dental care, etc. | 2a | |
| | b | Transportation and lodging | 2b | |
| | c | Other (list—include hearing aids, dentures, eyeglasses, etc.) ▶ | 2c | |
| | 3 | Add lines 1 through 2c, and write the total here | 3 | |
| | 4 | Multiply the amount on Form 1040, line 33, by 5% (.05) | 4 | |
| | 5 | Subtract line 4 from line 3. If zero or less, write -0-. **Total** medical and dental . ▶ | | 5 |
| **Taxes You Paid**<br>(See Instructions on page 20) | 6 | State and local income taxes | 6 | |
| | 7 | Real estate taxes | 7 | |
| | 8 a | General sales tax (see sales tax tables in instruction booklet) | 8a | |
| | b | General sales tax on motor vehicles | 8b | |
| | 9 | Other taxes (list—include personal property taxes) ▶ | 9 | |
| | 10 | Add the amounts on lines 6 through 9. Write the total here. **Total** taxes . ▶ | | 10 |
| **Interest You Paid**<br>(See Instructions on page 20) | 11 a | Home mortgage interest you paid to financial institutions | 11a | |
| | b | Home mortgage interest you paid to individuals (show that person's name and address) ▶ | 11b | |
| | 12 | Total credit card and charge account interest you paid | 12 | |
| | 13 | Other interest you paid (list) ▶ | 13 | |
| | 14 | Add the amounts on lines 11a through 13. Write the total here. **Total** interest . ▶ | | 14 |
| **Contributions You Made**<br>(See Instructions on page 20) | 15 a | Cash contributions. (If you gave $3,000 or more to any one organization, report those contributions on line 15b.) | 15a | |
| | b | Cash contributions totaling $3,000 or more to any one organization. (Show to whom you gave and how much you gave.) ▶ | 15b | |
| | 16 | Other than cash (attach [illegible]red statement) | 16 | |
| | 17 | Carryover from prior year | 17 | |
| | 18 | Add the amounts on lines 15a [illegible]gh 17. Write the total here. **Total** contributions . ▶ | | 18 |
| **Casualty and Theft Losses** | 19 | Total casualty or theft loss(es). [illegible] must attach Form 4684 or similar statement.) (see page 21 of Instructions) ▶ | | 19 |
| **Miscellaneous Deductions**<br>(See Instructions on page 21) | 20 | Union and professional dues | 20 | |
| | 21 | Tax return preparation fee | 21 | |
| | 22 | Other (list type and amount) ▶ | 22 | |
| | 23 | Add the amounts on lines 20 through 22. Write the total here. **Total** miscellaneous . ▶ | | 23 |
| **Summary of Itemized Deductions**<br>(See Instructions on page 22) | 24 | Add the amounts on lines 5, 10, 14, 18, 19, and 23. Write your answer here. | | 24 |
| | 25 | If you checked Form 1040 { Filing Status box 2 or 5, write $3,400<br>Filing Status box 1 or 4, write $2,300<br>Filing Status box 3, write $1,700 } | | 25 |
| | 26 | Subtract line 25 from line 24. Write your answer here and on Form 1040, line 34a. (If line 25 is more than line 24, see the Instructions for line 26 on page 22.) ▶ | | 26 |

**For Paperwork Reduction Act Notice, see Form 1040 Instructions.**

**Schedule A (Form 1040) 1984**

Schedules A&B (Form 1040) 1984

# Schedule B—Interest and Dividend Income

08 OMB No. 1545-0074 Page 2

Name(s) as shown on Form 1040 (Do not enter name and social security number if shown on other side.)

Your social security number

## Part I Interest Income

(See Instructions on pages 8 and 22)

Also complete Part III.

**If you received more than $400 in interest income, you must complete Part I and list ALL interest received. If you received interest as a nominee for another, or you received or paid accrued interest on securities transferred between interest payment dates, or you received any interest from an All-Savers Certificate, see page 22.**

| Interest income | | Amount |
|---|---|---|
| 1 Interest income from seller-financed mortgages. (See Instructions and show name of payer.) ▶ | 1 | |
| 2 Other interest income (list name of payer) ▶ | 2 | |
| 3 Add the amounts on lines 1 and 2. Write the total here and on Form 1040, line 8 ▶ | 3 | |

## Part II Dividend Income

(See Instructions on pages 8 and 22)

Also complete Part III.

**If you received more than $400 in gross dividends (including capital gain distributions) and other distributions on stock, or you are electing to exclude qualified reinvested dividends from a public utility, complete Part II. If you received dividends as a nominee for another, see page 22.**

| Name of payer | | | | Amount |
|---|---|---|---|---|
| 4 | | | 4 | |
| 5 Add the amounts on line 4. Write the total here | | | 5 | |
| 6 Capital gain distributions. Enter here and on line 15, Schedule D.* | 6 | | | |
| 7 Nontaxable distributions. (See Schedule D Instructions for adjustment to basis.) | 7 | | | |
| 8 Exclusion of qualified reinvested dividends from a public utility. (See page 23 of Instructions.) | 8 | | | |
| 9 Add the amounts on lines 6, 7, and 8. Write the total here | | | 9 | |
| 10 Subtract line 9 from line 5. Write the result here and on Form 1040, line 9a ▶ | | | 10 | |

**If you received capital gain distributions for the year and you do not need Schedule D to report any other gains or losses, do not file that schedule. Instead, enter 40% of your capital gain distributions on Form 1040, line 14.*

## Part III Foreign Accounts and Foreign Trusts

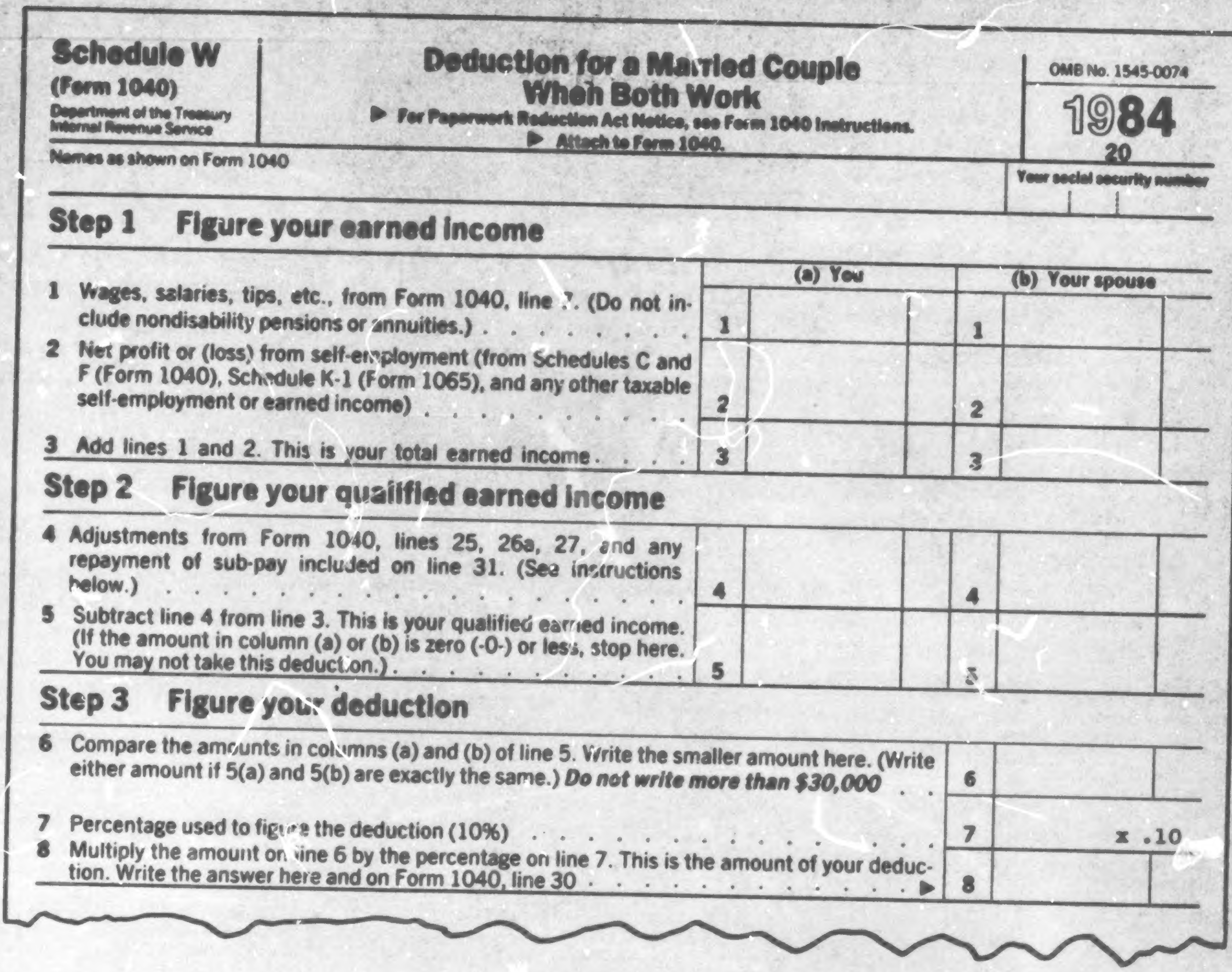
(See Instructions on page 23)

**If you received more than $400 of interest or dividends, OR if you had a foreign account or were a grantor of, or a transferor to, a foreign trust, you must answer both questions in Part III.**

| | Yes | No |
|---|---|---|
| 11 At any time during the tax year, did you have an interest in or a signature or other authority over a bank account, securities account, or other financial account in a foreign country? (See page 23 of the Instructions for exceptions and filing requirements for Form TD F 90-22.1.) | | |
| If "Yes," write the name of the foreign country ▶ | | |
| 12 Were you the grantor of, or transferor to, a foreign trust which existed during the current tax year, whether or not you have any beneficial interest in it? If "Yes," you may have to file Forms 3520, 3520-A, or 926. | | |

**For Paperwork Reduction Act Notice, see Form 1040 Instructions.**

Schedule B (Form 1040) 1984



**Schedule W** **(Form 1040)**
Department of the Treasury
Internal Revenue Service

## Deduction for a Married Couple When Both Work

▶ For Paperwork Reduction Act Notice, see Form 1040 Instructions.
▶ Attach to Form 1040.

OMB No. 1545-0074
**1984**
20

Names as shown on Form 1040

Your social security number

### Step 1 Figure your earned income

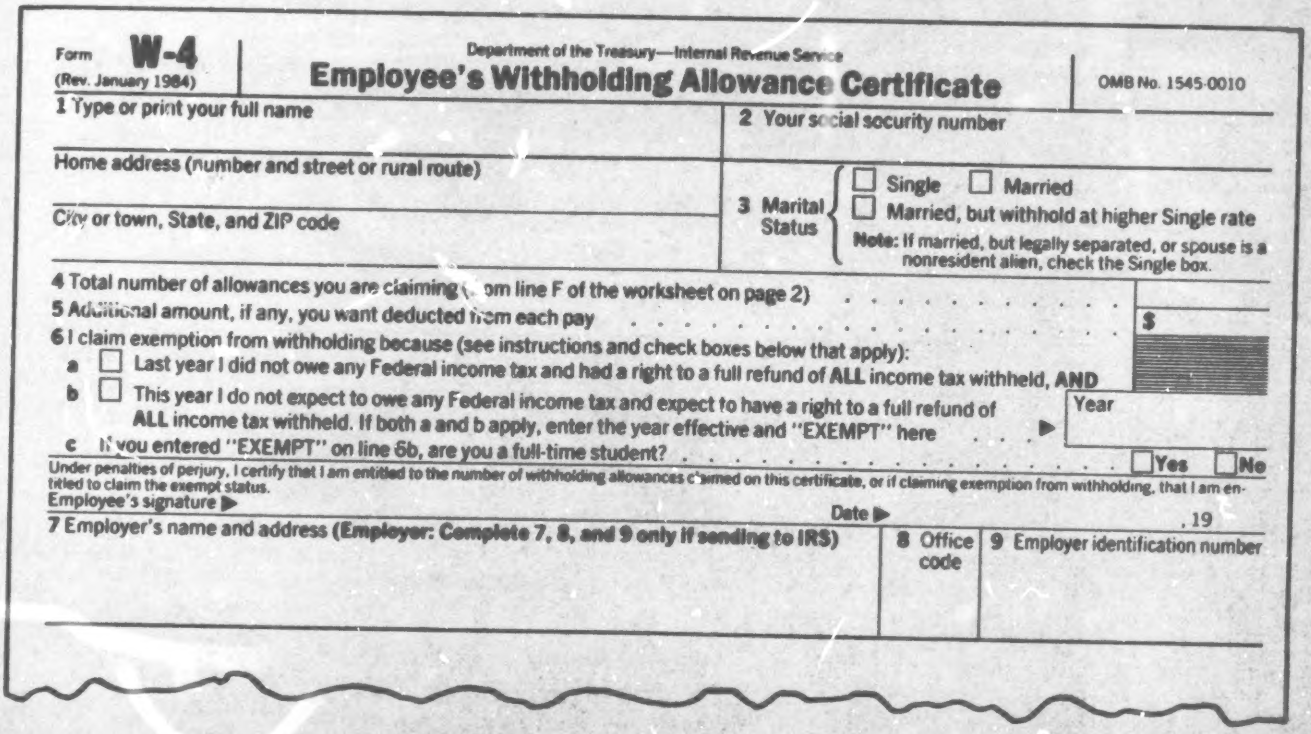
| | | (a) You | | (b) Your spouse |
|---|---|---|---|---|
| 1 Wages, salaries, tips, etc., from Form 1040, line 7. (Do not include nondisability pensions or annuities.) | 1 | | 1 | |
| 2 Net profit or (loss) from self-employment (from Schedules C and F (Form 1040), Schedule K-1 (Form 1065), and any other taxable self-employment or earned income) | 2 | | 2 | |
| 3 Add lines 1 and 2. This is your total earned income | 3 | | 3 | |

### Step 2 Figure your qualified earned income

| | | | | |
|---|---|---|---|---|
| 4 Adjustments from Form 1040, lines 25, 26a, 27, and any repayment of sub-pay included on line 31. (See instructions below.) | 4 | | 4 | |
| 5 Subtract line 4 from line 3. This is your qualified earned income. (If the amount in column (a) or (b) is zero (-0-) or less, stop here. You may not take this deduction.) | 5 | | 5 | |

### Step 3 Figure your deduction

| | | |
|---|---|---|
| 6 Compare the amounts in columns (a) and (b) of line 5. Write the smaller amount here. (Write either amount if 5(a) and 5(b) are exactly the same.) ***Do not write more than $30,000*** | 6 | |
| 7 Percentage used to figure the deduction (10%) | 7 | x .10 |
| 8 Multiply the amount on line 6 by the percentage on line 7. This is the amount of your deduction. Write the answer here and on Form 1040, line 30 ▶ | 8 | |



Form **W-4** (Rev. January 1984)

Department of the Treasury—Internal Revenue Service

## Employee's Withholding Allowance Certificate

OMB No. 1545-0010

1 Type or print your full name

2 Your social security number

Home address (number and street or rural route)

City or town, State, and ZIP code

3 Marital Status ☐ Single ☐ Married
☐ Married, but withhold at higher Single rate
**Note:** If married, but legally separated, or spouse is a nonresident alien, check the Single box.

4 Total number of allowances you are claiming (from line F of the worksheet on page 2)

5 Additional amount, if any, you want deducted from each pay $

6 I claim exemption from withholding because (see instructions and check boxes below that apply):

a ☐ Last year I did not owe any Federal income tax and had a right to a full refund of **ALL** income tax withheld, **AND**

b ☐ This year I do not expect to owe any Federal income tax and expect to have a right to a full refund of **ALL** income tax withheld. If both a and b apply, enter the year effective and "EXEMPT" here ▶ Year

c If you entered "EXEMPT" on line 6b, are you a full-time student? ☐ Yes ☐ No

Under penalties of perjury, I certify that I am entitled to the number of withholding allowances claimed on this certificate, or if claiming exemption from withholding, that I am entitled to claim the exempt status.

Employee's signature ▶ Date ▶ , 19

7 Employer's name and address (**Employer: Complete 7, 8, and 9 only if sending to IRS**)

8 Office code

9 Employer identification number

Form **5617** (Rev. 7-84)
Department of the Treasury
Internal Revenue Service

# Understanding Taxes Evaluation

Form Approved
OMB No. 1545-0779
Expiration Date: 7/31/87

To help us evaluate this program, we need your feedback. Please complete this questionnaire and return it in the preaddressed envelope included with this publication. Please see other instructions on back of this form.

PAPERWORK REDUCTION ACT NOTICE.—The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for the information so that we may review this Taxpayer Education Program and revise it in the future. Your response is voluntary.

Modules

A. How much classroom time was allotted to the module?

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|---|---|---|---|---|---|---|---|---|---|
| 1. 2 hours or less | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |
| 2. 3-4 hours | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |
| 3. 5-8 hours | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |
| 4. Over 8 hours | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |

B. Did you use the lesson plan provided in the Teacher's Guide (Pub. 19)?
*(If no, please explain)*

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|---|---|---|---|---|---|---|---|---|---|
| 1. Yes | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |
| 2. No | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |

C. Did you use any of the suggested activities for the module?

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|---|---|---|---|---|---|---|---|---|---|
| 1. Yes | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |
| 2. No | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |

D. If your students took the quiz, what was their average grade?

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|---|---|---|---|---|---|---|---|---|---|
| 1. 100-90 | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |
| 2. 89-80 | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |
| 3. 79-70 | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |
| 4. Below 70 | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |
| 5. Quiz not given | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |

E. Did the content of the lesson meet the course objectives?
*(If no, please explain)*

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|---|---|---|---|---|---|---|---|---|---|
| 1. Yes | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |
| 2. No | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |

F. What category best describes your school?
1. ☐ High school
2. ☐ Jr. high or middle school
3. ☐ Adult basic education school
4. ☐ Vocational school
5. ☐ Business school
6. ☐ Other *(specify)* ____________________

G. How many students used the Understanding Taxes Coursebook (Publication 21) in your class? __________ In your school? ________

H. Did the students find the artwork interesting?
*(If no, please explain)*
1. ☐ Yes 2. ☐ No

I. Was the artwork appropriate for the student audience?
*(If no, please explain)*
1. ☐ Yes 2. ☐ No

J. Do you feel that the modular concept is an effective method of teaching this program? *(If no, please explain)*

1. ☐ Yes
2. ☐ No

K. Would you prefer to have the student text on standard 8½" x 11" paper?

1. ☐ Yes 2. ☐ No 3. ☐ Not important

L. If you used Module 2, indicate which part(s) you taught.

1. ☐ Part 1
2. ☐ Part 2
3. ☐ Part 3

M. How effective were the following programs from the "Tax Whys/Understanding Taxes" audiovisual series?

1. "Taxes Raise Revenue"
   a. ☐ Very Good b. ☐ Average c. ☐ Poor d. ☐ Did not use
2. "Taxes Influence Behavior"
   a. ☐ Very Good b. ☐ Average c. ☐ Poor d. ☐ Did not use
3. "Taxes Involve Conflicting Goals"
   a. ☐ Very Good b. ☐ Average c. ☐ Poor d. ☐ Did not use
4. "Taxes Affect Different Income Groups"
   a. ☐ Very Good b. ☐ Average c. ☐ Poor d. ☐ Did not use
5. "Taxes . . . Can They Be Shifted?"
   a. ☐ Very Good b. ☐ Average c. ☐ Poor d. ☐ Did not use
6. "Taxes . . . What Is Fair?"
   a. ☐ Very Good b. ☐ Average c. ☐ Poor d. ☐ Did not use

N. Please list any suggestions or comments you may have concerning this course. If you need additional space, please attach a separate sheet.

**Instructions for Completing Understanding Taxes Evaluation, Form 5617**

MODULES are the independent units or lessons in the Understanding Taxes Teachers Guide, IRS Publication 19.

For questions A–E check all appropriate boxes for each question. If you did not teach a module, please leave the box for that module blank.

For questions F–K please fill-in only one box, or in the case of question G provide only one total.

For question L fill-in all boxes that apply.

For question M please fill-in one box for each of the six film titles.

# Addresses and Telephone Numbers for IRS District Understanding Taxes Coordinators

## All Correspondence should be addressed: ATTN: Understanding Taxes Coordinator

**ALABAMA**
500 22nd Street, South
Birmingham, AL 35233
(205) 254-0403
Toll Free (800) 424-1040

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P.O. Box 1500
Anchorage, AK 99504
Anchorage, 276-1040
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**ARIZONA**
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Phoenix, AZ 85004
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Little Rock, AR 72203
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Baltimore, MD 21203
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Jacksonville, FL 32202
(904) 791-2514
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**GEORGIA**
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Attn: TPE Coordinator
Atlanta, GA 30370
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**HAWAII**
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300 Ala Moana Blvd., #1002
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